OVERSIGHT HEARING ON THE FULL EMPLOYMENT AND BALANCED GROWTH ACT OF 1978

HEARING

BEFORE THE

COMMITTEE ON EDUCATION AND LABOR
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

SECOND SESSION

HEARING HELD IN WASHINGTON, DC, MARCH 18, 1986

Serial No. 99–86

Printed for the use of the Committee on Education and Labor

U.S. GOVERNMENT PRINTING OFFICE
59-252 O WASHINGTON : 1986

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

H341-60

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OVERSIGHT HEARING ON THE FULL EMPLOYMENT AND BALANCED GROWTH ACT OF 1978

TUESDAY, MARCH 18, 1986

House of Representatives,
Committee on Education and Labor,
Washington, DC.

The committee met, pursuant to call, at 10:15 a.m., in room 2175, Rayburn House Office Building, Hon. Augustus F. Hawkins (chairman of the committee) presiding.

Members present: Representatives Hawkins, Martinez, Owens, Bruce, Dymally, Penny, and Petri.

Staff present: Saralee Todd, special assistant to the chairman, majority staff; Mary Gardner, minority legislative associate; Beth Buehlmann, minority education staff director.

Chairman Hawkins. The committee will be called to order. The Chair would like to announce that several members are on their way, but in order not to unduly delay the witnesses, and also to make it possible to get all of the testimony in to the record today, we are very pleased to continue the Oversight Hearings on the Full Employment and Balanced Growth Act of 1978.

It is, I think, appropriate to do so at this time, because we are, as witnesses well know, commemorating the 40th anniversary of the Employment Act. A series of meetings have been held celebrating this anniversary, and the committee has determined to press forward in connection with the Full Employment Act of 1946 as amended by the act of 1978.

We would also like to announce for the record that in a few weeks, during the budget debate, that the committee will have time allocated to it, again, under the terms of the 1978 act, to lead off the discussion on the budget process itself. It will be at that time that much of the testimony that we will accumulate in the record today and in subsequent hearings will be the basis upon which that time will be allocated to the implementation of the Full Employment and Balanced Growth Act of 1978, together with such recommendations that will come out of the hearings today, and the other hearings as well.

Today, we are very pleased to have three distinguished economists to testify before the committee. All three are friends of the Chair and they have, I think, made a very distinct contribution, particularly in the 1978 act. And having participated in the earlier act, they are certainly pioneers in the field. I know of no three economists who have done more than these three as the participants of the 1978, as well as the earlier acts.

The first is Dr. Leon Keyserling, president of the Conference on Economic Progress, the former Chairman of the Council of Economic Advisers.

Dr. Keyserling, would you be seated at the table?

The second is Dr. Lawrence Klein, Department of Economics of the University of Pennsylvania. And I invite you, also, Dr. Klein, to come to the table.

The third is Dr. Bertram Gross, former Executive Secretary of the Council of Economic Advisers, and a visiting professor at the University of California at Berkeley and St. Mary's College.

All three were active, as I say, with us, in the formulation of the 1978 act. Dr. Klein served as one of the negotiators at that time, as I recall, being assigned by President Carter to negotiate with us in connection with the drafting and eventual signing of the act by the President.

We are delighted to have all three of you with us today, and Dr. Keyserling, we will lead off with you. And may I say that we have written statements, prepared statements that will be entered in the record in their entirety. We have asked the witnesses to give us the highlights and to leave some time for questioning of the witnesses.

[The opening statement of Hon. Charles A. Hayes and article from the Oakland Tribune follow:]

OPENING STATEMENT OF CONGRESSMAN CHARLES A. HAYES

INTRODUCTION

I would like to welcome all of you and thank you for your participation in this Committee on Education and Labor Oversight hearing on reaching full employment in the 1980's. I would also like to welcome Dr. Leon Keyserling, Dr. Lawrence Klein and a special welcome to Dr. Bertram Gross who has worked closley with me and my staff on issues of full employment. Also welcome to those of you who have come from all over our nation to support the principles contained in the "Income and Jobs Action Act of 1985", H.R. 1398.

We are all fully aware of our nation's urgent need to adopt measures aimed at reducing the high unemployment and putting the American people back to work.

The national figures show that 7.3 percent of Americans are unemployed which means that 8.5 million Americans are looking for work. Unemployment among minorities and minority youth is proportionately much, much worse. Black unemployment is 14.8 percent and black youth unemployment is a staggering 39.1 percent.

In 1978, the Hawkins-Humphrey Full Employment and Balanced Growth Act was enacted to deal with our nation's unemployment. The act calls for the President to work toward full employment, but the Reagan administration has made no effort to carry out the mandates of the law.

To address this void, I introduced the "Income and Jobs Action Act of 1985", H.R. 1398. My bill sets up a program for carrying out the Employment Act of 1946 and the Hawkins-Humphrey Full Employment and Balanced Growth Act of 1978—two laws which the Reagan administration has chosen to ignore. The program includes income maintenance—conversion planning—(military to civilian production and declining to growing civilian production—declining to growing civilian industries) and locally based overall planning. It also requires the President to transmit to the Congress a short-run and long-run financial plan to carry out the Act. Unfortunately, instead of helping those citizens who find themselves in the unemployment lines, this administration has chosen to attack the very programs which have been most effective in helping those without work gain decent jobs and decent wages.

The Reagan administration continues a media campaign to convince the American people that we are undergoing a full economic recovery. But the reality of life for most people of ordinary means is that they are not included in the upper class who are experiencing the impact of the occasional upturn in the economy.

The "Income and Jobs Action Act of 1985," is designed to create an environment where true sustainable economic recovery is achieved by establishing a Presidential program designed to reduce high unemployment. Our Country's strongest line of defense will not be achieved through record military budgets, but through providing for the economic well-being of every American citizen. The greatest threat to people who are stricken by poverty, homelessness and hunger does not come from any external source, but from joblessness. Let me repeat that: "The greatest threat to people who are stricken by poverty, homelessness and hunger does not come from any external source, but from joblessness. Without a decent, income-providing job it is impossible to plan a decent future, provide for family security or to participate in the mainstream of our society.

H.R. 1398 does not call for any new expenditures or the creation of new regulations, agencies or procedures. It merely gives the President a mandate to comply with provisions of the Full Employment and Balanced Growth Act of 1978. The law, Public Law 95-523, directs the President to submit a detailed plan to Congress on how the administration will reduce unemployment.

ACTUAL UNEMPLOYMENT STILL IN DOUBLE DIGITS

Much of America never recovered from the 1982 recession, and the real level of joblessness was at double-digit levels throughout 1985.

A report by the Full Employment Action Council land the Roosevelt Centennial Youth Project, titled Three Years of Recovery: Where Are the Jobs?

It notes that the official unemployment rate for 1985—at 7.2 percent—was higher than the rate for all but six of the last 35 years.

As reported in my article "Forty Years After The Employment Act" in the Oakland Tribune on February 21, 1986. "We now have 18 million jobless: 8 million people officially unemployed, another 5 million working part time although they want full-time work and still about 5 million wanting jobs, but not actively looking. When we count their dependents, the figure triples and reaches more than 50 million. This is the basic factor behind recent increases in poverty and homelessness and the devastation suffered in the inner cities, farms and industrial areas.

As Augustus F. Hawkins, chairman of the Committee on Education and Labor states the Full Employment and Balanced Growth Act of 1978 is being violated. The act has been ignored by President Reagan. According to a recent report of the Congressional Budget Office, a 1 percent reduction in the unemployment rate would reduce the Federal deficit in fiscal year 1986 by 40 billion dollars. A 3 percent reduction in the unemployment rate would reduce the Federal deficit by 120 billion dollars.

What this country needs today is a civilian equivalent of military spending. That means a total legislative package dealing with shorter work year (with no reduction in pay), child care, health, housing, environment, social security, public works, progressive taxation, and all the other quality of life actions needed to attain the objectives of "the Income and Jobs Action Act."

Let us be realistic. We may be able to take some steps in this direction if a better House and a much better Senate are elected this year. We might even be able to force the White House to back down on a few issues and override a presidential veto on other matters.

But that's hardly enough. The comprehensive approach of "The Income and Jobs Action Act" requires a White House and a Congress dedicated to the high ideal of expanding genuine freedom for everyone. Indeed, one might say that "The Income and Jobs Action Act" is a job description for the kind of president that America needs in the White House.

Does that mean that we must sit back and twiddle our thumbs until 1988 comes around?

Not at all! We in the House hope to educate people around the country through hearings on our best proposals like H.R. 1398.

There's no reason for waiting. You can help build a movement to get other people and Members of Congress committed to pass legislation, such as "The Income and Jobs Action Act" to serve as a substitute for excessive military spending.

True and meaningful economic recovery must include a substantial reduction in our Nation's unemployment rate because without it, the promise of a full economic recovery remains wholly an illusion.

Thank you.

FORTY YEARS AFTER THE EMPLOYMENT ACT

(By Charles A. Hayes)

Forty years ago today President Harry Truman signed the Employment Act of 1946. This was a measure he had helped originate as senator and had pressed for as president.

The new law was compromise. The word "full"—under pressure from those who thought too much employment would push wages up and profits down—was dropped. So was the idea of the "right to a job at decent wages," as earlier advocated in Franklin D. Roosevelt's 1944 Economic Bill Rights of Rights.

But it did express a national commitment to tame the capitalist business cycle and avoid another collapse like the 1929–39 depression. It formally enlarged the president's responsibility for overall economic management. It gave him the Council of Economic Advisers to help in the task of coordination. It set up the Joint Economic Commitee to review the president's program and help integrate the separate legislative committees of Congress. With support from business and labor, these agencies replaced the earlier goal of economic stability with the bipartisan goal of overall growth.

And it did encourage many labor leaders, economists and other activists to bring back the full-employment goal. They invented the ideal of a "full-employment budget" to show how government revenue increases and government spending decreases when more people are on payrolls and fewer people are receiving transfer payments. They made the most of the act's words mandating the president to develop a program for reaching "the levels of employment, production and purchasing power" needed to create and maintain "useful employment opportunities, including self-employment, for those able, willing and seeking work." They developed a three-tier approach to attaining such levels: aggregate fiscal and monetary policies, direct incentives and other interventions in specific sectors (education, health, agriculture, defense, etc.), and smaller supplementary policies of direct federal job creation.

In 1973, Rep. Augustus F. Hawkins and his many congressional colleagues led a nationwide movement to strengthen the 1946 law. While everything they sought was not achieved in the Hawkins-Humphrey Act of 1978, they did succeed in mandating presidential action to bring officially measured unemployment down to 4 percent in five years. They also restored "full" employment to the earlier law.

No sooner had President Carter signed the new law than the full-employment ideal began to fade. Openly violating the law he had just signed, Carter deliberately promoted more unemployment. Why? He thought it would reduce inflation (which it didn't).

President Reagan has gone still further. His policies helped bring on the 1981–82 recession (the longest and deepest since World War II), have decimated employment in basic industries, have shaken agriculture to the roots and have produced the largest trade deficits and peace-time federal deficits in history.

We now have 18 million jobless: 8 million people officially unemployed, another 5 million working part-time although they want full-time work and still about 5 million wanting jobs, but not actively looking. When we count their dependents, the figure triples and reaches more than 50 million. This is the basic factor behind recent increases in poverty and homelessness—and the devastation suffered in the country's inner cities, farms and industrial areas.

The full-employment goal has also been torn apart conceptually. Some economists seem to define full employment, Rep. Hawkins points out, as "whatever level of unemployment is politically tolerable." Some call the present level "natural." They shouldn't be counted. Others argue that any lower rate would mean an inflationary rate of economic growth, ignoring the other roots of inflation. The proponents of the Gramm-Rudman budget act have been burying the idea of a full-employment budget. Neither the Joint Economic Committee, the Congressional Budget Office, the Office of Management and Budget nor the comptroller general has recently told the country that reducing official unemployment to the Hawkins-Humphrey level of 4 percent would itself cut the federal deficit by half.

What in the world has happened? Where are those business leaders who know that jobless people are bad customers and that raising the income of the poor would mean better markets for their products? How come so many well-meaning people see job training and federal job creation (vital though they are) as a substitute for overall full-employment planning? Why have the full-employment coalitions that worked around the country for the Hawkins-Humphrey Act been disbanded?

> As we wrestle with the federal deficit and the foreign trade deficit, let us not tolerate any decifit in the courage needed to deal with fundamentals. Let us look at these questions objectively and bring all points of view into the open.

Chairman **Hawkins**. Dr. Keyserling, we greet you and would you proceed?

STATEMENT OF DR. LEON KEYSERLING, PRESIDENT, CONFERENCE ON ECONOMIC PROGRESS, FORMER CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

Dr. **Keyserling**. Mr. Chairman and members of the committee, I deeply appreciate the opportunity to be here, and also to have joined with me my old friend and former colleague, both before and after the act, Bert Gross, who was a tremendous factor in the achievement of the original act, and also, to have my friend, Larry Klein, who has done so much in so many fields, including this one.

We are very inclined, Mr. Chairman, economists especially, to do everything except what science has found so important, to try to learn from experience. The physicists, the engineer does not dismiss Einstein because he lived a little while ago, nor even Newton, likewise in medicine, but in economics for some strange reason, as you read and study what they have said during the powerless economic experiences of the last 20 or 30 years, you will really find almost nothing which attempts to distill and evaluate what has happened in the laboratory of the great American economy since World War II, nor to consider what a tremendous bearing almost all of that has on where we are today.

We are reminded of that statement somewhat to the effect that those who do not study the lessons in history, will suffer the misfortunes.

Now, actually World War II was our most tremendous economic accomplishment, it is so easy to say, oh, but that was a war. Now, if we learned, as we did during that war, methods of dealing with physical wounds which we knew nothing about during the War Between the States, we didn't say when the war was over we can't use that as a lesson anymore, because the war is over.

Yet, in the field of economics, we have completely reversed those policies, ignored those lessons, lately to our disadvantage.

Now, the Employment Act of 1946 was really based upon the World War II experience, because it was realized that then within some minutes, the American people of the great American economy could do anything that they wanted to, if they set a goal and said we have got to get there. It couldn't jump over the Moon, but it did things which outdistanced the most fanciful expectations.

So, when in 1944, and I am pardoned for the reference, I wrote a prize-winning essay on post-war economic plans and problems, I said this:

> This war has awakened Americans to the promise of America, we are now producing goods at a rate more than 50 percent higher than during the best year before the war. And when peace comes, we shall have millions of our finest manpower drawn from the men and women in our armed forces to add to our production forces, if we have the brains to make use of them. We shall have a chance to abolish poverty, to reach higher standards of living than ever before. We can set an example to the world, we need an American economic policy and an American economic goal.

The broad outlines of suggesting an American economic policy and an American economic goal, in that 1944 essay which was called "An American Economic Goal," the broad outlines of it—and I am not going into the historic details—were what the Employment Act of 1946 was all about. It was the fruit of that great experience during World War II. It proposed goals and committed the Government to lead toward their achievements.

Now, I am not going to review in detail the long history of what has happened since. Broadly speaking, and it is documented by my charts, 39 in number here, broadly speaking what was done during the first administration of the Employment Act from 1947 to 1953, was a shameless, prideless copying of what had been done during World War II.

Now this may seem surprising to those who say, Oh, no, you didn't have the same kind of high taxation, you didn't have the same kind of huge deficits, you didn't have the same size inflationary threat. But that's not the point. The point is that what was copied was the policy approaches which had led to what needed to be done during World War II, and which equally led to what was done during those first years under the Employment Act.

The tax rates weren't the same, but they were determined by the same general approaches. The containment of inflation wasn't the same, but it was governed by the same general approaches. The commitment to full employment and full production was the same and was achieved.

This was also done, to a considerable extent, under the Employment Act of 1946, from 1961 to 1966, not thereafter. And with the same results, in my third chart—I am not going to really refer to them now—sets forth in detail the entire record of economic growth rates, of inflation rates, of Federal deficit rates during all of the years from 1947 to 1986, early 1986.

During 1961 to 1966, as I was saying, there was again an unprideful repetition of what was done under the first administration of the Employment Act, and as I have said, following very closely what was really learned from World War II with an equally good experience, reasonably full employment, reasonably full production, quite high real economic growth and very little inflation.

Now I am going to outline, and I am really going to make this rather brief, the basic differences between what was done when we were successful and what was done when we failed. And I ought to say a word about when we failed and by how much.

What are the great purposes of an economy? Not any given price level, or any given price trends. We don't eat prices. Not any given level of Federal deficits or surpluses, that is bookkeeping.

The great purposes of an economy are to wring from its naturally human resources the best that can be done in terms of production and full employment, which is an aspect of full production, which is needed anyway as a simple conferring of decency upon people who want to live by the sweat of their brow, and not by gifts. And the use of the product in a way that does two things: to augment the opportunities for further growth and progress, and to serve what I call the great priorities of our national need. And I don't need to identify those—health, education, housing, resource development, rebuilding of the infrastructure.

Now, those are the great purposes of an economy. I want to repeat them because they are so important. That has at times been accomplished by a higher or lower price level with a Federal surplus, or a Federal deficit. And there is no such thing as defensible or really explicable use of the means, which the budget is, and which prices are, and which wages are, no defense of the means, no real rational explanation of the means, except what contribution they make and how willing we are to adjust them to the end purposes from which all needs are met, all needs—education, housing, health, plants and equipment, national defense—they are all met out of the production of goods and services, and how they are allocated among different purposes.

The opposite to that is to erect the purposes to an obsessionary preoccupation which forgets about the means. The budget must be balanced because—I don't know where it comes from—the purpose of the budget is to be balanced. The purpose of the budget is not to enable, as Lincoln said, the Government to do for the people what they cannot do for themselves. The purpose of the budget is not to make the economy work better. The purpose of the budget is to be balanced.

Likewise as to the control of inflation. The purpose of stable prices under this second approach is not to promote full employment and full production, but to deliberately stunt economic growth and full employment and production on the thesis that the trade-off creates a natural threshold of inflation, now around 6 or 7 percent, and you erect the ends to triumphant control over the—erect the means over the triumphant control over the ends.

That is the first great difference between the years when the American economy was triumphantly successful, whether during World War II or the first administration of the act, or sometimes later on, and when it has been so abysmally a failure—to which I will refer in a minute. That was the first great difference.

Suppose someone had said during World War II, "Well, it may be important to win the war, or to save us from destruction, but we cannot give that primacy over balancing the budget". Anybody who said that during the war would be strung up, not because that is a hard thing to perceive, anybody can perceive it now, but because whether wars are moral or not, and I think our entry into World War II was moral—war is the only time when we have a moral economics. It puts things first, it assesses real values, it is courageous enough to face up to what needs to be done, it judges by results, not by shibboleths and ideologies. And it doesn't allow for the triumphant of the most selfish and predatory of the competing forces in the private economy.

Now, what is the second great difference?

You will perceive that these differences have threaded their way through and explained the periods when we were successful and the periods when we weren't.

The second great difference is the false dichotomy which is drawn between what needs to be done to make an economy successful, and a narrow economic conventional success, output, and growth. I have said that is the most important thing, but there is a dichotomy between what needs to be done to get that and what is needed on economic, social, and moral grounds to make the welfare of the people the supreme law.

Nothing is more fallacious than that, more completely refuted by all experience. There is no dichotomy each of the two: the narrow economic progress and the improvement of the welfare of the people, are mutually complementary. I don't say this, Mr. Chairman, because I would like it to be so; I say it because the history which I have revealed proves that it has always been so.

So, to win, in the name of I know not what—certainly not attention to the ends, but preoccupation with the means—we cut back on those features of the budget which deal with these human needs and purposes. We are following this false dichotomy.

Now the sad thing is, the irony is, the ironic lesson which would be fortunate, if it didn't have such bad results, is that by trying to do this, we flop even on the means. We haven't gotten price stability by trying to erect it to supremacy over full employment. No matter how much some of the economists say the empirical record is entirely to the contrary, as is traced throughout here.

The greatest period of inflation we have had since World War II was during the period when we had the greatest recession, since the Great Crash. The much hailed properly subsidence of prices during the recent so-called boom centering in 1984 was marked by a great decline in prices accompanied by a tremendous increase in what I call the primary purposes, the increase in production, the increase in real economic growth.

I have a chart which traces the various periods and shows throughout the inverse correlation between high unemployment and low inflation.

So, that is one of the great neglects that never could have been exhibited during World War II, and was not exhibited in the successful periods thereafter.

Now, most important of all is the whole practical philosophy which governs almost everything that we have been doing in recent years—it is upside down. I want to read a portion of my testimony which states better than I can state it extemporaneously at the moment. I would put this down as the epitome, the explanation, the characterization of what has been happening to us. I can read that most easily from my summary:

> Salient examples of the long-term reversal in national economic policies are these: Long-term quantitative goals for reasonably full employment, production and purchasing power; and equally important of the component product and income flows essential to bringing this about have been replaced with mere forecasts of what an economy is likely to do if left to its own devices, and even the forecasts have grown laughably wrong because of the deficient analysis. Preoccupation with means, as I already indicated, has been substituted for ultimate purposes with inevitable results, both to the ends and the means. A balanced relationship has been distorted rather than promoted between private investment and production facilities, and ultimate demand in the form of private consumer outlays, plus public investment, which is really public consumption.

Now, one of the most interesting and, I think, illuminating charts in my whole testimony is the one which traces through various periods the relative growth, real growth rates in investment, planning and equipment which increase production ability on the one hand, and ultimate consumption which is composed both of what private consumers spend and what the Government spends, which is really consumption, the Government doesn't build plants. When the Government supports a school, it is engaged in the consumption of steel, just as much as when I buy razor blades.

This chart shows that during each period of boom, or so-called boom—this was strikingly true of the last boom—the rate of increase in investment and in the expansion of production facilities grew several times as fast as the rate of increase in ultimate demand.

Even now when 1985 has shown the onslaught of another stagnation with an economic growth rate of only 2.5 percent, and the first few months of 1986, only 1.2 percent, even now you have that distortion, although in less aggrevated form.

Now, sure, when the economy moves absolutely downward, the investment is cut back most, private investment, because it is the most volatile, when the business managers realize that there is a lack of markets, not because they can't borrow money. Not because the interest rate is too high, because they shift that on to the consumer, but because they see that the ultimate demand, the take will not support the higher level.

These cutbacks combined with the longer, larger, and more enduring efficiencies in private consumption and public demand are what bring on the big recessions, which has been addressed with decreasing success as we have gone although we haven't had anything near a complete recovery. The latest recovery left us with more unemployment at its peak than we used to have during recessions some 15 or 20 years back.

It has developed a national parade of efforts to call bad things good, because they were not quite as bad as they were yesterday, 6.5- or 7-percent unemployment is good, because it isn't quite as high as it was at the worst, although it is going to get higher again.

Let me continue—consumer incomes and spending have been adversely affected by regressive fiscal and monetary policies—in other words, the tax policy. I trace in detail with my charts, the different tax programs since 1964, the best advertised and the least—and as unsuccessful as any in the longer run, because they all increase the disposal income of those at the top many times as much as the disposal income of those at the bottom—not dollarwise but percentagewise.

If I were at the top of the income structure, I got a 40- or 50-percent increase in my disposal income by the tax cuts; if I were at the bottom, I got a 5-percent increase.

The money policy, the same thing. The high interest rates had no beneficial effects and there, again, we say, oh, they are not high anymore, look at the way they are going down. The prime rate is 9 percent, when it was where it ought to be, it was 3 percent. The interest rate on housing is still way above the bottom of the double digit figure and stands as a barrier to the purchasing of housing by families are being formed and who will need it most. And this feast and famine in housing is one of the grave causes of all of our trouble.

So, the Federal budget, which like everything else is adjusted to what is going wrong, instead of what ought to go right, is cutting back on aid to that.

Consumer income and spending have been adversely affected by regressive fiscal and monetary policies by a hostile attitude toward those Federal budget outlays which help those first who need help most, and by failing to observe much less to remedy the decline in real wages and other sources of consumer spending.

We can all remember that for 30 years now, the Government makers of national policies and most of the economists have joined in the hue and cry that wages are rising too fast and have been responsible for the inflation and for the trouble in the economy. They have lagged behind productivity gains when the economy was doing well and if they had tried to be cut back as far as the productivity gains collapsed when we were in trouble, which some wanted to do, we would have ignored even Hoover's ignored advice that you can't restore the economy by cutting back on the purchasing power of the greatest single body of consumers.

A false dichotomy has been drawn between the requirements for conventional economic progress and for human and social improvements. Now, let me continue that—I am almost through here with what I say at somewhat greater length about it in my prepared testimony.

Well, what I have said is that we are following an economic magical line, protective effort against trouble instead of an affirmative positive line. If investment in absolute terms is too low to support the adequate level of consumption, we try to cure it by bringing the level of consumption down to what an inadequate investment pace will provide, instead of having related quantitative goals in the context of the goals for the whole economy, to bring both upward mutually toward what a successful and prosperous economy needs.

If the budget cannot yield adequate revenues in a stunted economy, instead of recognizing the turnup of a healthy economy has always provided enough Government revenues to meet our needs and to run a surplus, we cut the budget back to what the stunted turnup seems to be able to afford to support.

If the stricken economy cannot seem to support, especially if we place slavish attention to a balanced budget, the human services that we need on economic, as well as social grounds, we cut these back—everything is a heroic effort to reconcile failures, to make failures compatible and thus to project and continue them, instead of a planned effort to move forward on a unified basis.

Now, I use the word planning. That does not mean that we should, in relative peacetime, tell the steel industry how much to produce. I am talking about the planning of what the Government does. I am saying that the Government's tax policies and money policies and budget policies, and housing policies should not fly blind and in conflict, should not conspire to turn the economy downward, but should be adjusted to the overall goals of bringing the economy upward to where it ought to be.

I have a great deal of details in my testimony on this, but I will refer only to one, and that is on the Federal budget, which is the greatest single instrument for doing what we ought to do, and are neglecting to do it. As I have said, balancing the budget through Gramm-Rudman-Hollings, or in some other way if the Supreme Court interferes with that, has become the supreme objective of national economic policy.

No one is really asking, what is this going to do with the economy. No one is really thinking through, what is it going to do to the Federal budget in terms of the deficit. Because, as I show in one of my charts, the deficit has increased inextricably as the economy has fallen behind, the full employment and full production proves it.

So I suggest as a first step in rectifying this situation reconstructing a Federal budget, make the Federal budget—and that is fully dealt with in my chart 5, which projects a model. Now, I am not asking the Congress to accept my model, I am talking about a technique. I don't care that some other economist in and out of the government makes a model with different figures, but I do care that they are working on something that is relevant, on getting the economy where it ought to go, and setting the budget in that context.

My chart 5 works out such a model. Incidentally my models done year by year have been vindicated by experience by what has happened when they weren't followed, in terms of the increasing deficit, as well as everything else.

So, my chart 5 works out that model. Let me just conclude with what I find for the Federal budget, because it is so important. This is on page 10 of my testimony. What a shocker it is going to be for Leon Keyserling to have political lack of judgment to talk about a budget that is so diametrically at difference from what 85 or 95 percent of the Members of the great American Congress think it ought to trend.

Well, in the first place I don't think it is my duty here to lock step with what is going on, but to try to call attention to what ought to be going on as a limited persuasive value and gradually changing some of the thought and action.

Furthermore, I don't agree with the statement that there can't be a change because of the political situation in that the great American public is in sympathy with what is being done. The great American public wants, in terms of progress, goods, services, health what I suggest, and the great American public would approve of the means of getting it, if they were not brainwashed by the public officials and by so many economists, and by the media who tell them everything that is wrong and to blame the tribulations and failures of the past 70 years, not upon the reversals of the policies which have caused them, but by the earlier policies which worked and are not said to be outmoded. Or say that the problems have become so new and different that nothing prescribed before will work.

But as I point out in my testimony, we haven't had any recent economic problems that can bear any comparison to the economic problems of World War II. We really don't have any compared to economic problems in the Truman administration, which involved the mobilization from the greatest war in history, and the cutting of the defense budget to one-tenth of what it was, because it could then be done within a year or two.

We haven't had any labor conflict problems that have been greater, we haven't had any intrinsic inflationary pressures as great as those which resulted right after World War II, when the Government having financed only half the war in taxation and half in borrowing, you have this tremendous release to buy things which have been blown up because at wartime savings were blown up.

All the problems were greater, but I must say that maybe the way in which they were dealt with was greater. It is shocking this complete panorama of excuses and alibis and misrepresentations, and brainwashing of the public as to why we are doing what they all feel the terrible consequences of, and how much better we could do if we changed it around a bit.

Now, let me read this paragraph about the budget:

> All Federal budget outlays should be lifted to $1,052 billion estimated 1986 dollars, in fiscal 1986 and to $1,18 billion in fiscal 1990. The fiscal 1986 goal is $78.9 billion above the President's original recommendations for that year, with a lift of $87.6 billion, $9 billion above the President's original recommendation, with a lift of $87.6 billion for all domestic programs and a decline of $8.7 billion in the category of national defense and so forth. Then all of these changes in the budget are worked into the composite goals for the economy. And then I have a showing, which I don't think any economist will deny as to its mathematics, or as to its verity that with these changes in the budget and the reductions in monetary severity, and the changes in some of the other, what are called micro-economic policies, although some of the micro-economic policies require Federal financing, then we would end up with a balanced Federal budget by 1990, in the only way it can be balanced and the only way it should be balanced.

Whereas under the projection of current trends, we will have a deficit of above $100 billion at least by 1990. And the basis of this is that if the economy moves now, year by year, toward the achievement of what are now the 1990—I say 1990, although the subject matter here was late 1989, the end of the 1980's, moves toward those goals, and we should be trying to adjust, if it doesn't work out that well—that we would enjoy an average annual difference of $324 billion estimated 1986 dollars in GNP, with an increased budget cost of $94.4 billion.

Now, talking about a trade-off, what could be a better bargain than that, to get an increase in the GNP averaging more than three times as great as the increase in the size of the budget, and moving toward a balanced budget and a balanced economy.

Now, let me just call attention without saying anything about it to the chart which shows what we have lost and where we have been going. We have lost $25 trillion of gross national product, or four times our national product now. We have suffered 106 million years of excessive unemployment and we have had the other national economic deficits which are so much more important than the Federal deficit. And a great increase in poverty, a great increase through aggressive policies in the relationship of the haves and the have nots. And an uncertainty and concern on the part of the American people as to where we will go next.

Thank you very much, Mr. Chairman.

[The prepared statement of Dr. Leon H. Keyserling follows:]

PREPARED STATEMENT OF LEON H. KEYSERLING[1]

Mr. Chairman and members of the committee, I deeply appreciate the opportunity to appear before you again, at this hearing entitled "Reaching Full Employment in the 1980's", which means by the end of 1989. Perhaps "by the end of 1990", the period I use in recommending my goals herein, would square better with the time period specified in the Humphrey-Hawkins Act, projected from where we are now instead of from 1978 when that Act became law. My remarks here today will focus upon the issues defined in the letter of February 20, 1986 from Committee Chairman Hawkins to me: namely that microeconomic and macroeconomic policies are needed for a full employment program and what efforts during the past 40 years can serve as models for successful implementation of the goals and policies mandated in the Employment Act of 1946 and the Full Employment and Balanced Growth Act of 1978, now basically an amendment to the 1946 Act. As an essentially related matter, I am asked to address my testimony to the economic ramifications of the Gramm-Rudman-Hollings Balanced Budget and Emergency Deficit Control Act of 1986. Also, I am asked to discuss the validity or invalidity of the current widespread claim that the so-called "inflationary threshhold" determines a "natural rate" of unemployment of 6 to 7 percent.

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[1] President, Conference on Economic Progress, Chairman, Council of Economic Advisers under President Truman.

I am delighted that my old friend, and former colleague, before and after the 1946 Act, Bert Gross, is also testifying today, for he was a mighty factor in achieving that Act, and has been so steadfast over the decades in his work for full employment.

My starting point must be the Employment Act of 1946, which now incorporates also the Humphrey-Hawkins Full Employment and Balanced Growth Act of 1978. This vital legislation was not an experimental shot in the dark. Rather, it was designed for postwar use of the experiences and lessons of World War II, which have remained highly relevant but painfully neglected. A prize-winning postwar employment essay which I wrote in 1944 during that war commenced as follows: "This war has awakened Americans to the promise of America. We are now producing goods at a rate more than 50 percent higher than during the best year before the war. And when peace comes, we shall have millions of our finest manpower, drawn from the men and women in our armed forces, to add to our production forces—if we have the brains to make room for them. We shall have a chance to abolish poverty, to reach higher standards of living than ever before. We can set an example to the world . . . We need an American economic policy and an American economic goal."

This 1944 essay then set forth a specific plan developing postwar economic goals and the national policies needed to reach them through the combined efforts of the President and the Congress under the watchful eye of an informed people. In due course this plan, varied in detail, became nonetheless a veritable outline for the main contours of the Employment Act of 1946. Thus, it is essential to recognize today, as it is not yet perceived generally, that the World War II experience and lessons motivated the 1946 Act and should be a prime guide in its application.

During World War II, we achieved hyper-full employment (unemployment below 1 percent); optimum real economic growth averaging annually 9 percent, toward achievement and maintenance of full production; full expansion of purchasing power and the fairer distribution of national income essential to this performance; full attention to priorities of national needs, both wartime and domestic; and rapidly rising living standards despite almost half of national production being blown up for destruction. Just as we did not abandon when peace or relative peace came the improvements in medical treatment which the war had brought forth, so it has been grave error to abandon after the war—except for a few years—the improvements in economic policy and approaches which brought results beyond expectations during the war. To be sure, the Employment Act did not contemplate the use in relative peacetime, when destructive activities no longer consumed almost half of GNP, the wartime extraordinarily high levels of taxation, of Government regulation, of public spending, and of Federal deficits in ratio to total GNP. But the Act did contemplate for peacetime as in wartime that, in the formulation and utilization of these measures, as well as those regarding wages and prices, restraint of inflation, and international economic and trade balances, the quantitative and qualitative aspects of these measures were not ultimate purposes nor good nor bad in themselves; instead they were means rather than ends, to be forged and judged entirely by how well or poorly they served the top and ultimate national purposes of full employment and production and allocation of the results in accord with our national and international needs and priorities. In short, none of these means were to be given precedence over the ends or even used to defeat them. It was fully appreciated that there was no such thing as a too high or too low, too severe or too lax, a utilization of the means except as judged by the impact upon the top ultimate national purposes which they were designed to effectuate. Anyone who urged during World War II that balancing the Federal Budget or stabilizing prices should be given top urgency ranking at the sacrifice of all else would have been strung up, figuratively speaking; and so it should be in times of peace.

To illustrate, only after it was determined in wartime that the stabilization of prices, a means rather than an end, was conducive to optimizing achievement of the ultimate purposes—only then were policies adopted which stabilized prices remarkably well. But if the wartime experience had revealed that rising and falling prices were essential to the ultimate national purposes, their rise or fall would have been encouraged by national policies. In other words, the trends in prices and wages and restraining the rate of inflation were not considered as ends in themselves. The proper policy as to these was determined by examining their effect upon the objective of achieving and maintaining a full economy and using its production wisely. Similarly, the Federal deficit was permitted to increase enormously because this was the only practical method to finance the top national purposes including the conduct of the war. At the beginning of the war, there were powerful voices which insisted that inflation and huge federal deficits were a greater danger to us than Hitler and Tojo, and that accordingly, by way of example, steel production should be held at prewar existing levels. This was urged, only to avoid inflation, but also to avoid excess capacity after the war. These advisors were laughed out of court, and fortunately so. And the vast expansion of steel output not only helped us to win the war, but also remained and incalculable asset after the war was over.

In essence, whether a total war is moral or not—and I believe that our participation in World War II was—total wartime calls for the application of morality to the policies used. In such times, we have the moral strength to recognize facts and set aside prejudices and pure ideologies, to apply needed and even novel policies accordingly, and to put first things first whatever the cost, instead of bowing to irrelevant shibboleths and even at times doing the wrong things by putting the interest of the few above those of the many. "Business as usual" was not a wartime refuge.

Drawing upon the experiences and lessons of World War II, with similar accent upon full employment and full production because it is these that served every national want and aspiration which depend upon material goods and services, and with adjustment of means to these ends, the use of the Employment Act of 1946 by the Truman Administration during 1947-1953 achieved what has sometimes been looked upon as the moral equivalent of war. During a period divided almost equally between peacetime and a limited war which had not very much impact upon the functioning of a peacetime economy, we averaged annually 4 percent unemployment and brought it down to 2.9 percent by the last year, as shown also on my Chart 1; we averaged annually only 3 percent price inflation, with the increase down to 0.8 percent by the last year. We averaged close to full production, with an average annual real economic growth rate of 4.8 percent. And because, except under conditions of total war, the blood of adequate revenues could be drawn from the turnip of a fully growing economy, we averaged annually a surplus of 1.6 million dollars in the Federal Budget.

The policies which helped so much to bring about these results during 1947-1953—policies drawn so substantially from the lessons and experience of World War II—may be summarized briefly. Because worthy policies and optimum economic performance depend first of all upon our knowing just where we want to go and determination to get there, numerical goals and timetables of achievement were set for the employment, production, and purchasing power requisite to a full economy. In the interest of the economic balance essential to reach these goals, component goals were set for a balanced or viable relationship between domestic and international purposes, and among the three main components of GNP—private consumption, private investment, and public outlays. National priorities of purpose were set as they had been in wartime, although all of the priorities obviously were not the same. Then, and only then, the policies or means—including Federal taxation and spending, the intended condition of the Federal Budget, actions affecting prices and wages and profits, and even international transactions—were adjusted to achievement of the end purposes and readjusted from time to time on the basis of empirical results. For the same reasons, the money supply was kept abundant and interest rates low, just as during World War II.

The validity of similar ultimate objectives backed by similar economic principles and policy formulation and application during some years of the Kennedy and Johnson Administrations yielded practically similar salutary results, as my Chart 1 also reveals. But some of the years during 1953-1969, and especially the 17 years from early 1969 to early 1986, have witnessed a great reversal of policy. Meaningful and purposeful goals are no longer set. Instead there are hedged in "forecasts" which timidly guess what the U.S. economy is like to do with less and less government assistance. In the absence of strong and courageous goals and policies, actual developments have consistently fallen short even of the forecasts. It is as if Roosevelt had asked his generals to forecast whether we would win the war instead of mobilizing to win it, or as if Truman asked for forecasts about the future of western Europe instead of backing the Marshall Plan. The practice has become supine yielding to alleged automatic economic laws, ordained from on high, instead of determination to mold the economy for the better in accord with the Employment Act of 1946 and 1978. Hardly any efforts are being made to benefit by long experience, or to delineate the focal causes of economic stagnations and recessions as they occur. Almost no efforts are being made to promote the flow of product and income in accord with the balanced development of the main components of GNP; the results of this error have cost us dearly. Fiscal and monetary policies to achieve these balances (depending in large measure, as will be shown, upon the more progressive distribution of national income) have been replaced by the use of the Federal Government as the most powerful and aggressive weapon for distributing income upward and regressively. The monetary policy, under the Federal Reserve, has been excessively tight in real terms and highly regressive. Ends are sacrificed to means, as in the case of the use of fiscal policy in a highly regressive manner, in an attempt to reduce the Federal deficit by reducing the real economic performance and flouting the economic good sense and social justice which are essential ingredients in a good performance. Manifestly, the unfavorable end results of these hopeless and helpless policies seem to have confirmed the stubborn commitment to them.

The bitter harvest has been reaped. The 17 years from early 1969 to early 1986 have brought forth a roller-coaster economic performance of inadequate upturns, stagnations, and recessions, with each upturn at its peak tending to leave us further from complete recovery than the previous one and to leave us with more idle labor force and plant than the troughs of recessions a number of years back, and with the most recent recession being the most severe downturn since the Great Depression of the 1930's. There has been a chronic retreat from full employment and full production, a chronic increase in unemployment, and of course a chronic increase in the Federal deficit. As shown on my Chart 2, the average annual rate of real economic growth was 4.8 percent during 1947–1953, and averaged 5.4 percent during 1961–1966. But it was only 3.2 percent during 1966–1969, 2.8 percent during 1969–1984, 2.6 percent during 1977–1984, and 2.1 percent during 1979–1984. The continued roller-coaster since 1984 will be treated shortly.

The distortion of national economic policy has been doubly erroneous because placing the facilitating means or instruments first has resulted also in egregious failure even to these means as instruments. The poor performance of the economy, measured against full employment and full production, has been the reason for the huge and chronically soaring Federal deficits, as I shall demonstrate. The roller-coaster economic performance has been the cause of causes of the chronically rising inflation, as I shall reveal in detail. Yet, the policy makers continue to attempt in practice the same so-called "trade-off" between unemployment and inflation, although the long term record makes it crystal clear that more idle plants and more unemployment mean more inflation and vice versa. In any event, to purchase lesser price rises by more roller-coaster costs is penny wise and pound foolish. Our lack of international competitiveness is due not primarily to the deeds of others, but rather to the shortfalls in our performance at home. The fault has not been in our stars, but in ourselves, as Shakespeare observed long ago.

The changes now needed in national economic policies will not receive even a small fraction of the attention they merit, much less be approved by the Congress, unless and until there is fuller understanding of the tragic economic and social costs of ignoring the 1946 and 1978 Acts, and of how these tragic costs have been due in large measure to almost two decades of national economic and related social policies contrary to the mandates of these two Acts, inimical to full employment, production, and purchasing power, and equally injurious to simple equity and decency in the treatment of those scores of millions of Americans who need help most and have really gotten it least. Frankly, the American public has been greatly brainwashed in the wrong direction, and education in the correct direction represents a critical need.

As shown on my Chart 3, the GNP forfeiture of 19.5 trillion dollars 1953–1984 is measured in 1984 dollars. Measured in early 1986 dollars, this comes to more than 25 trillion; most of this forfeiture has been during the 17 years 1969–1986, and has come to more than 21 trillion, and another half a trillion through early 1986, or about five times our annual rate of total GNP in early 1986. Expressed at its true level, including the full time equivalent of part-time employment and those not counted in the civilian labor force because of shortage of job opportunity, the years 1953–1984 aggregated more than 120 million years of true unemployment, and more than 125 million by early 1986, these amounts being above the "frictional" level consistent with full employment. The true excessive-unemployment figure for the 17 years 1969-1986 is about 106 million, coming to about 91 percent of the total civilian labor force in early 1986 and about 97 percent of those employed full time. The unemployment trends are further indicated on my Charts 1 and 4.

The slowdown in the rate of real economic growth is a prime measurement and explanation of these adversities. And the roller-coaster continues: Even after the most recent and widely applauded "boom" left us with extraordinarily high unemployment and idle plant, we moved into stagnation again with a real economic growth rate of only 2.5 percent during 1985 and a real economic growth rate of only 1.2 percent during the succeeding months thus far. And under current and perspective national policies, another recession by common if not universal consent threatens within a year or two. Unemployment now stands at nearly 12 percent or more than 12 million, when properly counted at its true level. Taking into account the rotation of unemployment among different workers with any given year, and taking account also of family dependents, 50 million or more Americans are now directly hit yearly by excessive unemployment, which forces a large part of them below the poverty ceiling even if not already there even without unemployment.

These staggering losses are vastly aggravated by the widening gap between the house of have and the house of want, and by greatly increased poverty during the more recent years. Persons living below the poverty ceiling, as defined by the U.S. Department of Labor, rose from 24.147 million or 12.1 percent of the population in 1969 to 33.700 million or 14.4 percent in 1984. As to families, the rise was from 5.008 million to 7.277 million, or from 10.4 to 11.8 percent. These and other deteriorations are explained on my Chart 5, revelating progressive shortchanging of the great national priorities—education, health, housing, aid to the afflicted, repair of the decaying infrastructure, etc.—which depend upon Federal aid. The roller-coaster has also worsened our international competitive position and worldwide influence, as the basic causes of or international difficulties reside not in others. In the words of Shakespeare, the main fault is not in others but in ourselves that we are underlings.

The alibis for this debacle, offered by the national policy makers under the Democrat Carter and the Republican Reagan, and joined in by many top economists inside and outside the Government, are that conditions domestic and international during earlier years were so unlike those during recent years and today that the successful national policies of these earlier years should be excoriated and reversed. Indeed, the more recent and current troubles and blamed largely upon the alleged defects of the earlier successful policies, while the true explanation of the troubles is that these earlier policies have been turned upside down. To be sure, conditions and problems do change, but not enough to ignore the long-term lessons of actual experience. This ignoral means that the Employment Act of 1946 have become a dead letter and the Humphrey-Hawkins Act of 1978 void *ab initio.*

Most lamentable of all, in terms of its sheer nonsense, is the repeated alibi that we are doing so poorly relative to long ago because the problems confronting us are so much "newer" and "more difficult." If they were, we should rise to the new and more difficult challenges. But in reality, what problems of the recent past and today compare in difficulty with those we surmounted successfully long ago? What domestic problems compare with those generated by the Great Depression more than 50 years ago, responded to by programs of recovery and reform which permanently generated much more good than have ever in so short a period without bloodshed and intense civil turmoil been accomplished anywhere in the world at any time? What recent or current competition of Japanese automobiles or goods imported from Germany or elsewhere have compared with the economic problems imposed upon us by Hitler and Tojo during World War II? In answer to these problems, we sent armies and navies all over the world and, despite devoting almost half of our national product to fighting the war, we increased production so much and distributed it so equitably that we raised general living standards and levels at home more rapidly than ever before, and after the first year stabilized prices. What problems of recent years or today compare with those during President Truman's times, when national policy achieved smoothly and successfully the rapid demobilization of our armed forces, within a year or two slashed military spending to about one-tenth of what it had been, beat or swords back into plowshears, met the problems later imposed by the Korean war and the cold war, and dealt with labor-management difficulties as severe as any since? And when, recently, have we achieved or even attempted the manifold social gains of the Great Society? The very good economic performance during 1947-1953 has already been described, and Chart 1 also describes that during 1961-1966.

The specific examples and consequences of the on-going and accelerating travesty in national economic policies are abundant and clear, and have already been set forth. Policy-wise, they include not only Gramm-Rudman-Hollings, but also policies which threaten to be continued even if that monstrous Act is set aside in whole or in part by the Surpreme Court. The official priority number one has become to balance the Federal Budget at the expense of the national economy and the well-being of the people; this policy cannot balance the Budget, and should not be tried even if it could. This legislative monstrosity gives priority to the Federal Budget as a means over the ultimate purpose of a fully utilized and just economy, and the pursuit of this monstrosity will defeat the ends which the Federal Budget is designed to serve and keep the Budget in huge deficits. As an example of the dominant cause of the soaring deficits, see my Chart 5.

Perhaps most damaging example of all is the arbitrary dichotomy being drawn between policies designed to improve the economic performance as conventionally measured, and those designed on moral and social grounds to help those first who need help most. It is abysmally forgotten that, as all experience demonstrates, the policies required on moral and social grounds are at the very heart of fruitful efforts to substitute a fruitful economy for a faltering and neglectful economy.

An outstanding feature of this false dichotomy is the proclivity of the national policy makers to adopt mistaken policies based upon the repeated assertion that private saving and the private investment in production facilities which is said to depend upon saving have been increasing too slowly; that consumption in the form of the ultimate demand consisting of private consumption and public investment combined have been developing relatively too rapidly; and that national policies should be directed toward increasing the former and restraining the latter. But in fact, the central cause of the roller-coaster all along has been that, during each period of "boom," private investment in plant equipment has grown enormously faster in real terms than ultimnate demand. Markets and sales show the effect of this. When the business managers see clearly the results of this imbalance, private investment is cut back sharply, and this coupled with the more enduring and larger deficits in ultimate demand bring on the periods of stagnation and recession.

These persistent trends are shown on my Chart 6. For example, even from fourth quarter 1984 and second quarter 1985, when general stagnation had set in, the real annual rate of growth in private investment in plant and equipment was 7.3 percent, while the advance for ultimate demand was only 4.5 percent. Although now shown on the Chart, the same imbalance though in lesser degree has persisted since mid-1985. We have by now reached the point where the deficiency in private consumption below its required role in a fully healthy economy is one of the most serious domestic economic problem we have. The same comments are applicable to the lag in public investment, especially Federal, behind the requirements for a full economy. As the same Chart 6 shows, the imbalances are fed mainly by the imbalances between profits supporting private investment in plant and equipment, and wages and salaries as the dominent support for private consumption. During the "boom" period fourth quarter 1982—second quarter 1984, the relative growth rates were 9.1 percent and 4.6 percent. Recent and current national economic policies augment these distortions and imbalances.

The hue and cry about deficient saving raises the same point. The assertions of a low rate of saving neglect the regressive distortion in income under current national policy which has provided relatively excessive saving among those at the top of the income structure who use it largely for investment purposes and deficient saving by those lower down in the income structure. And when saving thus developed cannot be absorbed adequately by investment, the recent extraordinary stock market boom is the result. And this is hailed as a favorable sign, when in fact it represents the same kind of imbalances which fed the great stock market boom before the 1929 Great Crash.

It follows, on both economic and social grounds, that the great task of national economic policy now and for the foreseeable future is to increase greatly Federal Budget outlays which directly increase consumption, with accent on domestic priority programs. That practically no one with power of decision is even whispering this viewpoint is a sign of the decline in economic thought and action. This largely ignores the lessons of experience during times when contrary policies brought about excellent results, at least comparatively speaking.

But review of the type of economic analysis which reveals what is going wrong can not take the place of what to do about it. In general and in detail, as mandated by the 1946 Employment Act and the 1978 Act residing within it, specific and quantitative goals with timetables for their achievement must supplant aimless bouncing around. Dedication to the public interest, and particularly for those who need help most, must supplant the course being practiced of watering the economic tree at the top. The proper relationship between the three main components in GNP must be projected as quantitative goals, and then every basic national economic policy should be trained upon achievement of these goals, with corrections as evolving experience dictates.

Because the approaches which I now recommend produced the triumphs of national economic policy and performance during World War II and at some later times which I have specified, a very large part of my research and educational efforts since I left the Truman Administration in 1953 have been devoted to working out examples of these successful approaches in the context of the on-going American economy. I have sometimes called these "A National Prosperity Budget", and sometimes "A National Economic Performance Budget." These analyses have appeared recurrently in 26 of my book-length pamphlet publications since 1953 under the aegis of the Conference of Economic Progress. My policy conclusions stemming from this analaysis (usually in conflict with what has been going on policy-wise during the period of the roller-coaster) have by now been vindicated by the adverse actual economic developments resulting from contrary policies. This is so important that I deem it desirable to set forth selectively the results of my studies and findings over the years.

Time will not permit going into even the major details. But my Chart 7 sets forth comprehensively the goals required to achieve by the end of 1990 the mandated goals of the 1946 and 1978 Employment Acts. From 1985 to 1986, the needed rise in employment is set at 2.7 million, and by 1990 at 12.0 million. The needed rises in GNP, 1984 dollars, are set at 218.8 billion and 1,195.8 billion; the goals in early 1986 dollars are 225.4 billion and 1,231.7 billion, respectively. Balanced goals for major components of GNP are also set forth. My Chart 8 sets forth 1986 and 1990 goals for growth in GNP and its components, ranging between about 5.0 percent and about 6.0 percent (5.3—5.2 percent for GNP). The Chart also sets goals for productivity growth, prices, Federal Budget outlays, and reduction of unemployment. These set the inflation rate at an annual average of 4.1 percent during 1985–1990 (assuming much lower in 1990) and the unemployment rate at 4.3 percent in 1990 (4.0 percent at the end of the year). The same Chart 8 estimates the dire alternative consequences of current economic policies, projected ahead. And Chart 9 translates these differences, 1985–1990, into almost 2 trillion 1986 dollars of GNP and almost 11 million years of true-level unemployment.

Because the Federal Budget is the prime instrument for effectuation of national economic purposes, my earlier Chart 5 contains what I believe to be a uniquely comprehensive but indispensable effort to depict where the Federal Budget is trending and the alternative course which it should follow if we are to replace failures with success. To state only the key point, all Federal Budget outlays should be lifted to 1,052.26 billion estimated 1986 dollars in fiscal 1986 and to 1,178 billion in fiscal 1990. The fiscal goal 1986 figure is 78.9 billion above the President's original recommendations for that year, with a lift of 87.6 billion for all domestic programs and a decline of 8.7 billion in the category of national defense, international affairs, science, and space. All of the goals in my analysis including the Federal Budget goals are integrated into a unified, balanced, and consistent guide to action, as was done during World War II and during the years when the 1946 Act was strikingly successful. The same Chart 5 depicts the major category Budget goals. It depicts the current attacks upon vital programs, and the roles I assign to meaningful attacks upon poverty and other instances of economic and social shortfalls. This Chart 5, is my answer to the question raised in the letter of invitation to me, related to the importance of microeconomics policies and programs. My Chart 10 relating the size of the Federal Budget to the gross Federal Public debt and to GNP, 1945–1985, should dispel the exaggerated concern about these rates. And my earlier Chart 5 shows that these ratios would decline in an economy moving toward full use by 1990.

The truth is that using the Federal Budget to balance the American economy is, for reasons I have already stated, infinitely more important than balancing the Federal Budget itself. Yet, while extraordinary Federal deficits at times serves a useful purpose, it is desirable in the long run to bring the Budget into balance or into surplus. This involves, not pseudo heroic grandstand plays like Gramm-Rudman-Hollings which is damaging beyond description, but painstaking examination of how the Budget may ultimately and usefully be brought into balance in a full and balanced economy. My Chart 11, measuring costs against benefits, estimates that the policies which I advocate, in contrast with projections of current national economic and Budget policies, would yield during the period 1985–1990 an average annual difference of 324.5 billion (estimated 1986 dollars) between the alternatives GNP's, with an increased cost in average annual levels of Federal outlays of 94.4 billion. It is hard to imagine a more profitable bargain than this in purely economic and financial terms. This is quite apart from the ever more important implications for the lives and livelihoods of the millions of American families who are sinking fast under current developments. It is apart from the benefits all along the lines, accruing to those throughout the total income structure who do so much better when the economic machine is running smoothly and in the right direction than than when it is fluttering and sputtering and moving around in a repetitive cycle of ups and downs.

To round out this phase of my analysis, my Chart 12 indicates how the model Federal budget which I advocate would, through a full rate of economic growth, balance the Budget by calender 1990, while stubbornly continuing the current course would result in a deficit of more than 132 billion. The average annual deficit under the more creative approach is estimated at less than 130 billion, and under the now-in-effect approach at more than 175 billion. My Chart 13 also illustrates that Federal deficits derive primarily from GNP deficiencies.

The approaches in national economic policies which we have been following for all too long involve trying to adjust to limited shortcomings in the economy by contriving other shortcomings in response to them. We adjust Federal outlays to what a stunted economy "can afford," instead of adjusting them upward to what a propertly growing economy and an aspiring people need and can afford. We try to push consumption downward toward what a repressed investment production base seems able to serve, instead of adjusting both upward and with the balance essential to optimum overall performanmce. When Federal tax receipts are too low to cover the level of public outlays compatible with reasonably full resources and with meeting insistent human and other priority needs, we seek to cut outlays further, instead of using the Budget to promote the fuller resource use which would increase the tax take. When economic performance is deficient because some part of the economy is weak, we weaken other parts of the economy, although weakening these other parts compounds this original weakness. The bloodletting of a physical nature which hastened the death of George Washington now finds its counterpart in the economic bloodletting of today. In short, our national economic policies are bent upon compounding failures instead of generating successes. We are becoming a nation of what we "cannot afford", instead of a nation dedicated to what we can and must do. We surrender to what is going wrong, and actual national polices aggravate what is going wrong, instead of reversing the process to get things to go right. We attempt Maginot lines against adverse forces, instead of marshalling a pro-prosperity advance. We forget the constructive dynamism of the 1946 and 1978 Employment Acts and step backward toward a defeated laissez-faire philosopy and practice.

Concern about getting the Federal deficit down by constructive methods is an essential aspect of valid efforts to get the U.S. economy up. But the current obsessionary preoccupation with squeezing the deficit down by choking off what we most need to do—an effort which cannot succeed as to the Budget itself—is accompanied by the far more dangerous and willful neglect of the fantastic increase of debt in the private sector. This, occasioned in large measure by substitution of inordinate borrowing for adequate income, is dangerous in the extreme. We should by now have learned from experience prior to the Great Crash that tremendously swollen private debts, especially in the face of general economic adversity, is infinitely more dangerous than a huge Federal debt which can be managed and cannot be "called." My Chart 14 shows that, comparing 1984 with 1952, the ratio of consumer credit to disposal income rose from 13.7 percent to 22.6 percent, while the ratio of consumer debt to disposal income rose from 38.3 percent to 75.0 percent. More generally, as shown in my Chart 15, the ratio of total interest costs to GNP rose from 5.24 percent in 1952 to 38.61 percent in 1984, a frightening increase in the burden with countless hurtful effects, These dangerous shifts are in part the result of the roller-coaster economic performance and the distribution of income upward, and in part the result of the wayward performance of the Federal Reserve Board. The first step toward a solution of this aspect of financial disequilibrium would be for the President and the Federal Reserve Board to maintain more adequate supervision and direction of the Federal Reserve, a matter I treat shortly.

Mr. Chairman and members of the Committee, I am not so presumptious as to take the position that the details of what I have set forth in my Charts may not be subject to consider refinement or alteration. Nor am I so underschooled in the political process as to believe that the Federal Budget aspects or other aspects of national economic policies will respond sensitively and quickly to what I recommend. But to achieve this response in detail is not the purpose of my effort. It is rather to indicate in broad outline, based on reason and experience, the altered approaches which would mightily help the Great American economy to become more prosperous and more just, in contrast to the approaches now working so malignantly in the opposite direction. I am morally convinced that it is my duty as an economist to put before you as I see it what the issues are. I feel that this will have some significant influence with the passage of time, as further developments further confirm the general correctness of my approach.

What I have said thus far imports that more liberal and stimulative Federal spending policy, both macroeconomic and microeconomic, and in line with the priority values set forth in my earlier Chart 5, is becoming ever-more important to reverse the roller-coaster. It is nonetheless true that vast and prompt changes in tax and monetary policy are also essential. Further, the three polices should work in harmony toward the same ends, as they did during the periods of highly successful economic policy which I have reviewed. I am amazed when I hear economists of such high repute as Dr. James Tobin preach that we now need a tighter fiscal policy and a looser monetary policy. In the first place, this is like recommending that two horses be hitched to opposite sides of the cart and told to pull in opposite directions. And it is so wrong because fiscal policy is a much stronger, surer, and more adaptable weapon for helping those depressed sectors of the economy who now constitute our main economic imbalances. The so-called monetary school has carried monetary policy to unsupportable supremacy.

However, it remains true that monetary policy has for many years required drastic changes. As shown by my Chart 16, the average annual real growth rate in the non-federally held money supply, adjusted as it should be (but is almost always not) for inflation, has crept along with unbelievable sluggishness since 1955. The average annual growth rate in real terms has been only 0.2 percent, and sharply negative trends have been associated with stagnation and recession. My Chart 17 depicts the soaring interest rates during 1953–1985, and also refutes the insinuation that interest rates are not now fantastically high because the prime rate has dropped to 10 percent in 1985. It is down to about 9 percent now. But it was only 3 percent in 1952. The interest rate on home mortgages, still far above the bottom of the double-digit rate, is absolutely prohibitive of new home acquisition by those in the lower portions of the income structure; and the inadequate average annual volume to total home building and its feast- and famine-character are major factors in the entire roller-coaster. My Chart 18 shows that the excess interest costs due to increases in average interest rates from 1952 to 1984 imposed additional interest costs of more than half a trillion dollars upon the Federal debt, more than 4.6 trillion upon private debts, and almost 5.4 trillion upon total private and public debts. As shown by my Chart 19, the excess interest costs in the Federal Budget by calendar 1985 came to far more than half of the total Federal Budget deficit, and were many, many, many times fiscal 1986 Budget outlays for education, health services and research, housing and community development, public assistance, and manpower programs. The Humphrey-Hawkins Act deals with the whole monetary problem, and suggests means for necessary reforms. These have been completely ignored by the Federal Reserve Board and the Congress, just as the total thrust of the 1946 and 1978 Employment Acts have been ignored by those entrusted to honor these Acts.

The headlong frenzy to slash Federal domestic outlays when they ought to be increased is accompanied by equally frenzied discussion—although not equally frenzied action—to increase Federal taxes. The general motivation for this tax frenzy is entirely wrong because it is deliberately designed to attempt to reduce the Federal Budget deficit by actually impeding further performance of the U.S. economy. It is easy to see how large increases in Federal outlays would greatly serve growth, justice, and priorities at the current juncture in economic conditions. It is much harder to see how increases in Federal taxes would do so, and attempted tax changes in view of their extremely divisive and fractious nature should be approached much more reluctantly than spending changes. Moreover, even the best of the recently proposed measures to increase the total tax take are regressive on net balance. But there is one way in which tax increases might be very helpful toward improving income distribution, reducing the economic imbalances, and expediting real economic growth and reducing unemployment. That way would be to reverse in whole or in larger part the economically unwise and morally iniquitous tax reductions of 1981. There is room also for the closing of many loopholes. Action along these lines would help to balance the Budget in a manner consistent with helping the national economy.

If attempted, such tax measures could well include, without sacrifice in net tax-take gains, various types of reduction in the tax burden imposed upon those lower down in the income structure. The benefits to the economy and the people of such shifts toward emphasis upon increasing consumption would far outweigh any hypothetical disadvantages to those who would have to pay in the future a portion of the taxes which they should never have been relieved of during the recent past. My

Chart 20 reveals the almost unbelievably maldistribution of the total tax burden on economic and moral grounds in 1982, and it has become considerably worse since.

My Chart 21 depicts how the 1939–1945 tax increases during World War II continued relative magnitude the progressive trends of many prior years. But Chart 22 demonstrates how the much-heralded 1964 Tax Act, through its personal tax cuts, increased by 16 percent the after-tax income of the $200,000 a year family, while increasing by only from 2.0 percent to 2.7 percent the after-tax income of families ranging from $3,000 a year to $15,000 a year. Some of the other income categories on this Chart 22 show the same indefensible distortions. My Chart 23 shows, for 1945–1963, average personal tax reductions ranging from 47.2 percent of income at the top to only 5.2 percent at the bottom. My Chart 24 demonstrates even greater distortions under the Economic Recovery Act of 1981, which increased after-tax income by only 0.6 percent for the $10,000 a year family and 23.8 percent for the $500,000 family. As another example, my Chart 25, dealing with the 1971 tax cuts, indicates the long range effects, which allocated 7.4 billion dollars in help to private investment, and only 2.7 billion to consumption. To grasp the full import of this comparison, one must recognize that consumption is about four times as high as gross private domestic investment, and should have had that many times as high dollar tax benefits just from the viewpoint of achieving balanced stimulation. My Chart 26 shows simliar investment-consumption imbalances in the 1981 tax cuts, when adjustment is made for the relative dollar-sizes of investment and consumption.

The more rapid advances in consumption required for economic balance and a full economic performance depend not only upon the fiscal and monetary policy already discussed, but also upon the absolute and relative income flows generated in the private sector itself. The erroneous national economic analysis already described has also affected powerfully the Government efforts, by direct controls and otherwise, to influence the respective trends in prices and wages as these affect the overall economic performance. Consistently, the chronic official view, extending over many Administrations, is that excessive wage rate increases have been mainly responsible for price inflation. This approach, utterly contrary to empirical observation, has been extremely damaging to the entire economic equilibrium or balance through its adverse effect upon consumption. This blunder needs to be altered, whether the Government effort is through controls, voluntary guidelines, or jawboning.

For production or unsupervisory workers in all private nonagricultural industries, the index of adjusted hourly earnings, measured in 1977 dollars to depict the real trends, fell from 100.5 in 1978 to 93.7 in January 1986, a decline of 6.77 percent. Average gross weekly earnings, reflecting also fewer hours of work opportunity, declined in 1977 dollars from $189.31 in 1978 to $170.21 in January 1986, a decline of 10.1 percent. Considering the dominant role of wages in consumer income and spending, these trends are perhaps the best single example of the growing consumption deficiency. My Chart 27, showing the shares of families at different income levels in total family income, sharpens up appreciation of how regressive income maldistribution accentuates the consumption deficiency, especially in that those lower down in the income structure spend a higher portion of their income for consumption than those higher up.

The entire pursuit of a full and just economy, and the reversal with terrible consequences of national economic policies essential to its attainment, have been accompanied by the meretricious claim that the degree of inflation which would result from moving forward stands in the way. The compelling refutation of this purely manufactured claim is embodied in the empirical evidence which makes the claim and the attempted use of the so-called "trade-off" between unemployment and inflation entirely insupportable. As shown in my Chart 1 earlier referred to, during 1947–1953 the average annual rate of unemployment was only 4.0 percent and was reduced to 2.9 percent in the last year, while the average annual rate of inflation was only 3.0 percent and reduced to 0.8 percent in the last year. Skipping over interventing periods which mostly tell the same story, during 1980–1984 the average annual rate of full-time unemployment was 8.3 percent, while the average annual rate of inflation was 6.0 percent. My Chart 28 provides additional details, but shows in general the same correlations. For example, when we suffered, from first quarter 1974 to first quarter 1975, the biggest recession since the Great Depression and an unemployment rate averaging 6.2 percent, the rate of inflation ranged from 11.0 percent for consumer prices to 16.7 percent for another type of prices. Other and later data on the same Chart 28 are generally confirmatory of my thesis. Notably, the so-called "boom" period from fourth quarter 1982 to second quarter 1984 generated a vast reduction in inflation. The periods thereafter as shown in the same Chart 28 indicate that a substantial economic slowdown did not reduce the rate of inflation, and the further economy slowdown since mid-1985 has price-wise not demonstrated the lessons of the long-term record.

There are various reasons for the empirical repudiation of the so-called "tradeoff". In the first place, in an economy so greatly affected by administered prices, there is a strong tendency to attempt to compensate for a disappointing business volume by more rapid increase in prices. And as I have studied in detail, the same prevails in the most important aspects of manufacturing. In the second place, persistent and rising unemployment leads to a reduction in the percentage use of plant capacity which exceeds the reduction in employment. This means less efficiency and lower productivity, as shown on my Chart 29. This increases costs per unit of production, exerting upward pressure on prices. And in the third place, the uncertainties and the subdued economic expectancies during the roller-coaster economic performance incite more price change than greater economic stability at a higher level of performance. The very least that may be said is that a long-enduring period of good economic performance would net far less price inflation than the roller-coaster. And, as earlier stressed, the values of the sustained good performance far outway any marginal changes in price levels.

Thus, the claim that a deliberately cultivated unsatisfactory economic performance has any element of desirability borders on the tragic. The claim is not empirically true, and it would be indefensible on economic and moral grounds even if it had any scintilla of truth. As has already been demonstrated, the fantastic economic costs of the roller-coaster far outweigh the benefits of any increases in price stability; and the public-policy attempts to make those who have suffered 106 million years of additional unemployment during the most recent 17 years of the roller-coaster the main contributors to an alleged but non-actual improvement in the price picture is morally indefensible, and indeed a defiance of American values.

It ineluctably follows that the now-persistent claims that a 6 to 7 percent level of unemployment is desirable because the "threshold" of allowable inflation is crossed when unemployment gets lower than this would hardly be worthy of citation if it were not so grievously embedded in recent and current practices. Certainly, as all experience demonstrates including the World War II experience and some during some later periods, we have it within our national-policy powers to bring unemployment down to whatever level we see fit. The claim that we cannot bring it down even to 3 or 4 percent, or to about half of what it is now, and the refusal to form and apply national policy actions accordingly, is a sordid excuse for failute to achieve what we have before and can again.

All that I have said is essentially a clarion call for resuscitation of the Employment Act of 1946 and initial activation of the additional provisions of the 1978 Humphrey-Hawkins Act. The specious plea is offered that this is no longer politically feasible because the American people no longer want it. But the American people do want the intended results, and they would approve the needed methods if they were not brainwashed and frightened by what they hear from the national policymakers and from so many economists and many of the media, all of whom have forgotten the empirical observations and moral imperatives which should be at the root of national policies.

I believe that I am sufficiently experienced and sophisticated, politically as well as otherwise, to recognize that the policy makers in the Congress and in the Executive Branch may not feel ready to go as far as I recommend. But I respectfully submit that they do need, by absorbing and paying attention to the economic and moral values involved, to start quickly and very substantially to go part of the way. The ceiling of political feasibility must be lifted above the floor of what we need to do to prosper and advance, and to avoid impending calamity. Even beyond this, I am convinced that, if even 50 members of the Congress would dedicate themselves to bring before the American people the pluses and minuses of alternative courses of action, the ceiling of political feasibility would be greatly lifted, for nothing would be more appealing to the American public than to dramatize honestly the infinite promise of America if only we do our best. Even today, the polls reveal that the American public deems high unemployment to be our most important domestic problem. The bearing of the torch in these directions rests tremendously with the members of the Congress. Be it your responsibility to hold it high.

We do not suffer from changes in the essential nature of our economic and social problems, nearly as much as we suffer from the deterioration in the behavioral patterns of those charged with high responsibility to deal with these problems. The prompt revival of the needed changes in attitudes and actions is marvelously set forth in President Truman's final Economic Report in January 1953 under the Employment Act of 1946, which achieved so much under his leadership. President Truman said: "Under the Employment Act, full employment means more than jobs.

It means full utilization of our natural resources, our technology and science, our farms and factories, our business brains and our labor skills . . . in the broadest sense, full employment means maximum opportunity under the American system of responsible freedom . . . Full employment tomorrow is something different from full employment today. The growth of opportunity, with a growing population and expanding technology, requires a constantly expanding economy. This is needed to abolish poverty and to remove insecurity from substantial portions of our population."

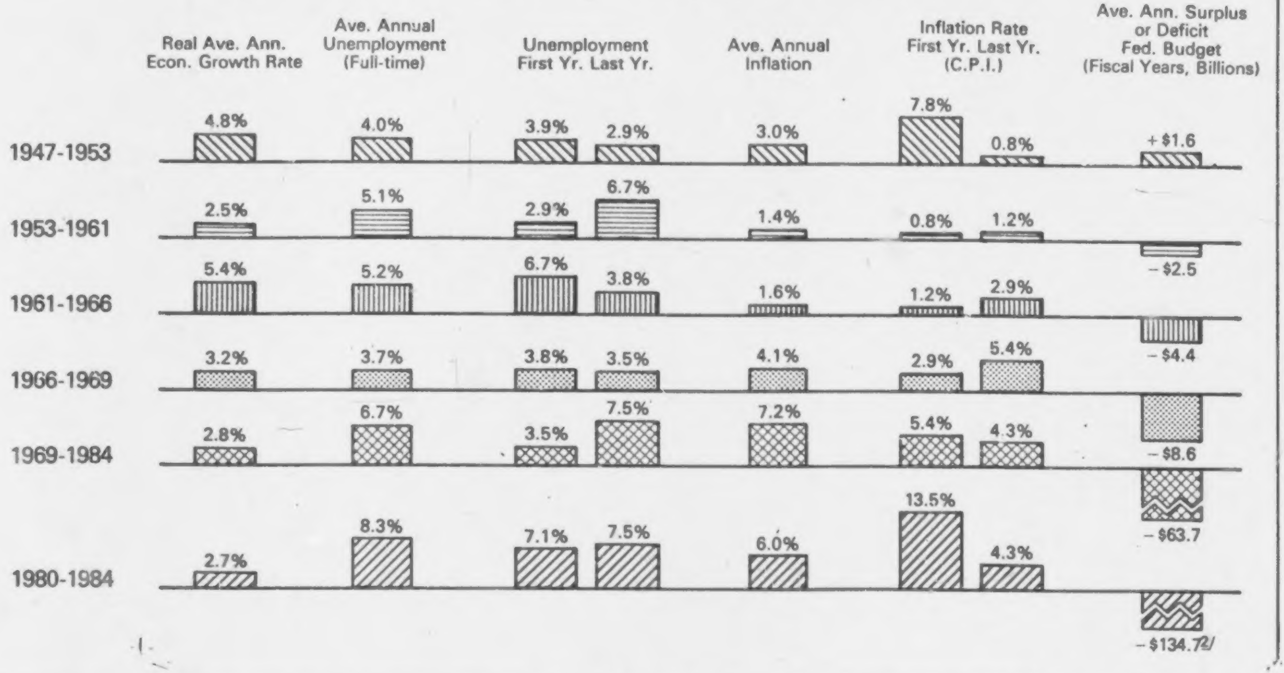
In the same Economic Report, President Truman also said: "The Employment Act has still another clear purpose even more profound and challenging than those of improving economic policy coordination and preventing depressions . . . It is the positive resolution of a great people, not simply to avoid pitfalls, but to maintain as a matter of continuing policy a full, bountiful, and growing economy . . . In such an economy, performance is not to be measured in the dimension of employment alone; in such an economy, expansion facilitates the spreading of economic justice, and the quality of the expansion is measured in terms of justice as well as efficiency . . . More and more people, being able to take the needs of their stomach for granted, can devote increasing attention to the needs of their minds and hearts."

And I feel impelled to conclude with this: For thirteen years during 1933-1946 I had a great privilege and opportunity in working closely with the late Senator Robert F. Wagner of New York, whose extraordinarily political or electoral successes were matched by his record—the greatest of all times—in successful leadership in economic and social legislation. On one critical occasion, this great public servant said; "The right to work is an inalienable right. It has not been surrendered and cannot be forfeited."

How can this not remain true today, if the America we love retains—as I am sure it does—the good sense and high values which have been its national heritage for more than two centuries?

CHART 1

REAL ECONOMIC GROWTH RATES, EMPLOYMENT & UNEMPLOYMENT, INFLATION, AND FEDERAL BUDGET CONDITIONS, DURING VARIOUS PERIODS, 1947—1984[1]



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[1] To allow for momentum effects of policies, the first year of one period is also treated as the last year of the preceding period. 1984 preliminary.

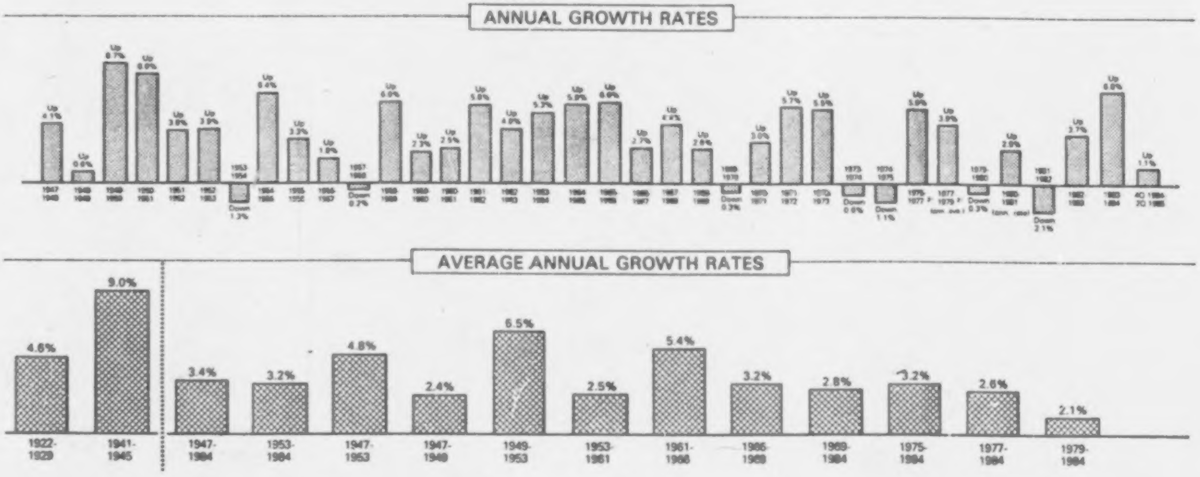
[2] Deficit FY'84 is $185.3 billion, including off-budget Federal entity. Deficit FY 1985 estimated $222.2 billion.

Source: Economic Reports of the President, and Economic Indicators.

CHART 2

THE "ROLLER-COASTER" ECONOMIC PERFORMANCE: ECONOMIC GROWTH RATES, 1922-1929, 1941-1945, AND 1947-2Q 1985

(Uniform Dollars)



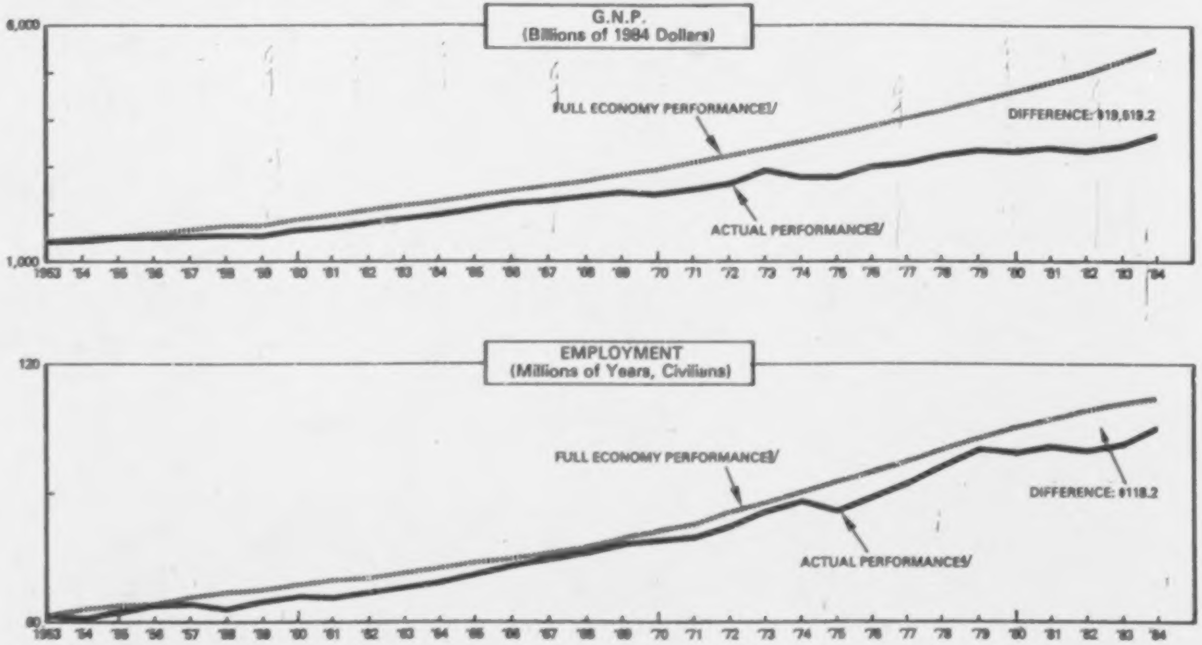
1/ Recession during part of period. There were six recessions, 1953-1984, but some were entirely within one year, and began and ended in different years.

2/ Two years combined to leave space for succeeding bars.

Annual Rates

4Q '83 – 1Q '84	10.1%	3Q '84 – 4Q '84	4.3%
1Q '84 – 2Q '84	7.1%	4Q '84 – 1Q '85	0.3%
2Q '84 – 3Q '84	1.6%	1Q '85 – 2Q '85	2.0%

COST OF DEPARTURES FROM FULL ECONOMY, 1953—1984



1/Real average annual growth rate of 4.5 percent.

2/Real average annual growth rate of 3.2 percent, the 1953-1984 average.

3/Average true level of unemployment of 4.1 percent, or 2.9 percent full-time unemployment.

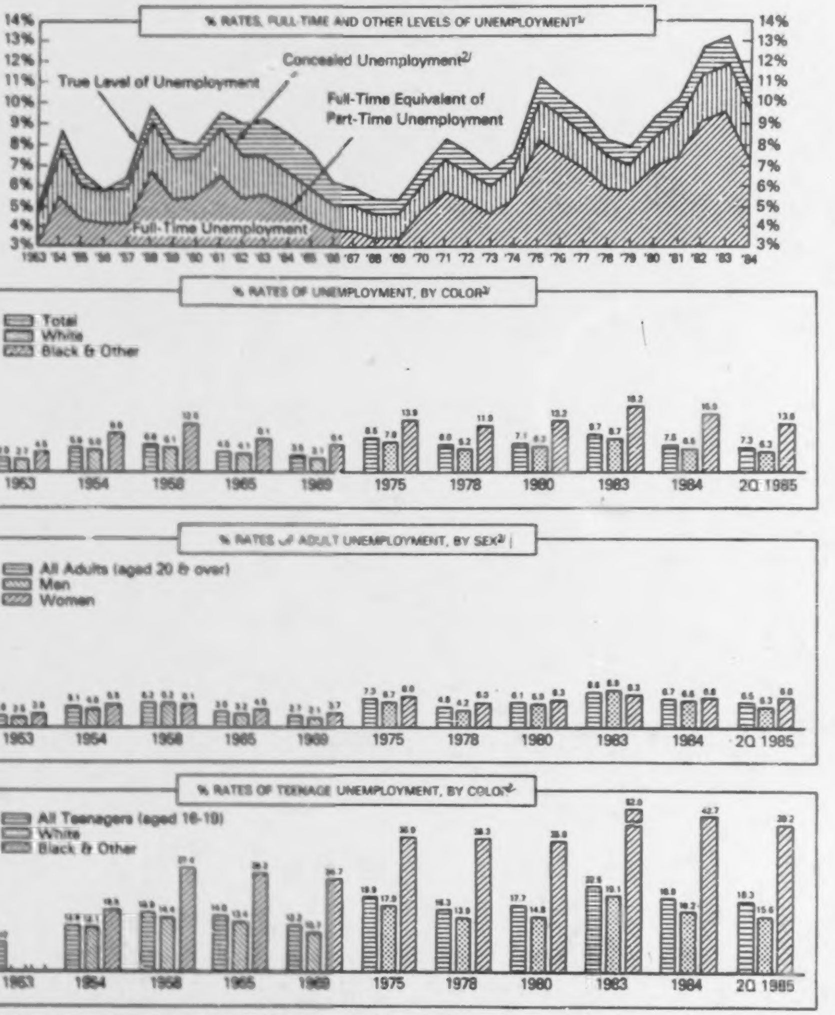
4/Average true level of unemployment of 8.4 percent, or 6.6 percent full-time unemployment.

Basic Data: Dept. of Commerce; Dept. of Labor; 1985 Econ. Rpt. of President.

CHART 3.

CHART 4

UNEMPLOYMENT, % RATES & DISTRIBUTION, 1953 — 2Q 1985



1/ In deriving these percentages, the officially reported civilian labor force is augmented by concealed unemployment. Thus, some of the rates for full-time unemployment are very slightly lower than in the official reports of full-time unemployment.

2/ Withdrawals from labor force, due to scarcity of job opportunity.

3/ Officially reported concept of full-time unemployment.

4/ Distribution by color unavailable.

Note: Some totals affected by rounding.

CHART 5

GOALS FOR A MODEL FEDERAL BUDGET, FISCAL 1985, 1986, 1990 AND CALENDAR 1990 COMPARED WITH ACTUAL BUDGET, FISCAL 1984, 1985 AND PRESIDENT'S BUDGET FOR FISCAL 1986[1]

(In billions of fiscal 1986 dollars)

	ALL FEDERAL OUTLAYS			NATIONAL DEFENSE, INTERNATIONAL AFFAIRS, SCIENCE, AND SPACE			DOMESTIC PROGRAMS[2]			INCOME SECURITY, OTHER THAN VETERANS[3]			MANPOWER PROGRAMS, INCLUDING PUBLIC SERVICE JOBS		
	Total Expenditures ($ Billions)	Per Capita ($)	% of GNP	Total Expenditures ($ Billions)	Per Capita ($)	% of GNP	Total Expenditures ($ Billions)	Per Capita ($)	% of GNP	Total Expenditures ($ Billions)	Per Capita ($)	% of GNP	Total Expenditures ($ Billions)	Per Capita ($)	% of GNP
Actual Budget, 1984	922.8	3,908.91	23.72	272.6	1,154.80	7.01	652.2	2,763.81	16.81	365.3	1,547.23	9.39	5.7	24.14	0.15
Estimated Budget, 1985 *	1,000.2	4,197.23	24.79	294.3	1,235.00	7.29	705.9	2,962.23	17.50	374.7	1,572.39	9.29	6.3	26.44	0.16
President's Budget, 1986	973.7	4,046.85	23.43	313.3	1,302.70	7.54	660.4	2,746.85	15.89	372.9	1,550.52	8.97	5.6	23.28	0.13
Goals for Fiscal 1985	1,024.3	4,298.39	25.08	294.3	1,235.00	7.21	730.0	3,063.37	17.88	374.7	1,572.39	9.18	22.1	92.74	0.54
Goals for Fiscal 1986	1,052.6	4,376.72	24.80	304.6	1,266.53	7.09	748.0	3,110.19	17.41	362.6	1,507.40	8.50	23.2	96.47	0.54
Goals for Fiscal 1990	1,170.0	4,689.38	22.24	342.8	1,373.95	6.51	827.2	3,315.43	15.73	428.1	1,715.83	8.14	28.4	113.83	0.54
Goals for Calendar 1990	1,178.8	4,715.20	22.14	345.4	1,381.60	6.49	833.4	3,333.60	15.65	431.6	1,726.40	8.11	28.7	114.80	0.54

	TRANSPORTATION			AGRICULTURE, NATURAL RESOURCES, ENVIRONMENT, AND ENERGY			EDUCATION			HEALTH			HOUSING AND COMMUNITY DEVELOPMENT		
	Total Expenditures ($ Billions)	Per Capita ($)	% of GNP	Total Expenditures ($ Billions)	Per Capita ($)	% of GNP	Total Expenditures ($ Billions)	Per Capita ($)	% of GNP	Total Expenditures ($ Billions)	Per Capita ($)	% of GNP	Total Expenditures ($ Billions)	Per Capita ($)	% of GNP
Actual Budget, 1984	25.7	108.85	0.66	36.1	152.90	0.93	16.4	69.46	0.42	32.9	139.35	0.85	17.1	72.43	0.44
Estimated Budget, 1985	28.2	118.34	0.70	43.2	181.29	1.07	18.1	75.95	0.45	35.4	148.55	0.88	31.5	132.19	0.78
President's Budget, 1986	25.9	107.64	0.62	29.2	121.41	0.70	15.8	65.85	0.40	34.9	145.11	0.84	16.9	70.27	0.41
Goals for Fiscal 1985	28.6	120.02	0.70	44.9	188.42	1.10	19.2	80.57	0.47	35.4	148.55	0.87	32.7	137.22	0.80
Goals for Fiscal 1986	30.1	125.16	0.70	45.1	187.53	1.05	20.2	83.99	0.47	37.4	155.51	0.87	33.0	137.21	0.77
Goals for Fiscal 1990	36.8	147.49	0.70	50.0	200.40	0.95	24.7	99.00	0.47	52.6	210.82	1.00	34.2	137.07	0.65
Goals for Calendar 1990	37.3	149.20	0.70	50.6	202.40	0.95	25.0	100.00	0.47	53.2	212.80	1.00	34.6	138.40	0.65

[1] Dollar goals would be higher to extent of further inflation. Items include off-budget Federal entities.

[2] Includes categories other than those listed in detail, i.e., commerce and housing credit area and regional development, disaster relief and insurance, social services, veterans' benefits, administration of justice, general government, general purpose fiscal assistance, interest, allowances, and undistributed offsetting receipts.

[3] Includes social security and medicare, but excludes housing assistance.

[4] The housing portion of these figures — $12.2 billion in 1984, $26.5 billion in 1985, and $12.3 billion in 1986, appears in "Income security" in the President's Budget. Goals for housing — $27.5 billion in 1985, $27.8 billion in 1986 $28.8 billion in FY 1990, $29.1 billion in Cal. 1990.

* Est. as of Feb. 1985

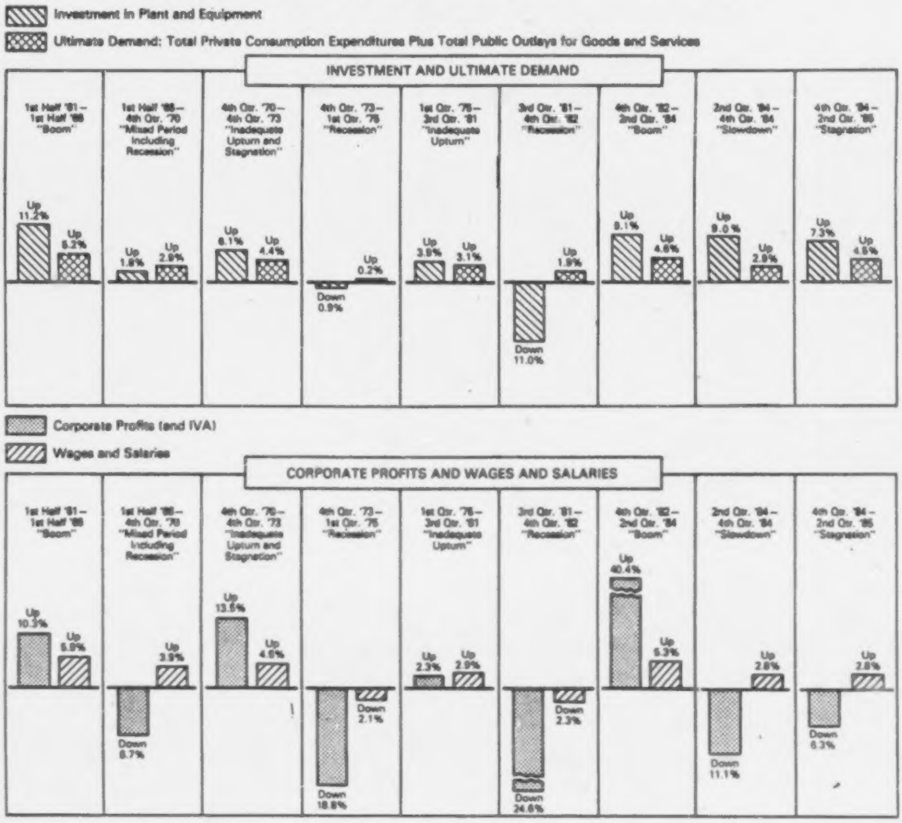
Note: Population — 236.1 million in 1984, 238.3 million in 1985, 240.5 million in 1986, 249.5 million in FY 1990, 250.0 million in Cal. 1990.

GNP — $3,880.4 for 1984; $4,034.4 for 1985; and $4,155.9 for 1986. Goals — $4,083.7 for 1985; $4,258.1 for 1986; $5,261.8 for FY 1990; and $5,323.3 in Cal. 1990.

Basic Data: Office of Management and Budget and Department of Commerce.

CHART 6

COMPARATIVE GROWTH RATES, 1961 — 2Q 1985
(Average Annual Rates of Change, in Uniform Dollars)

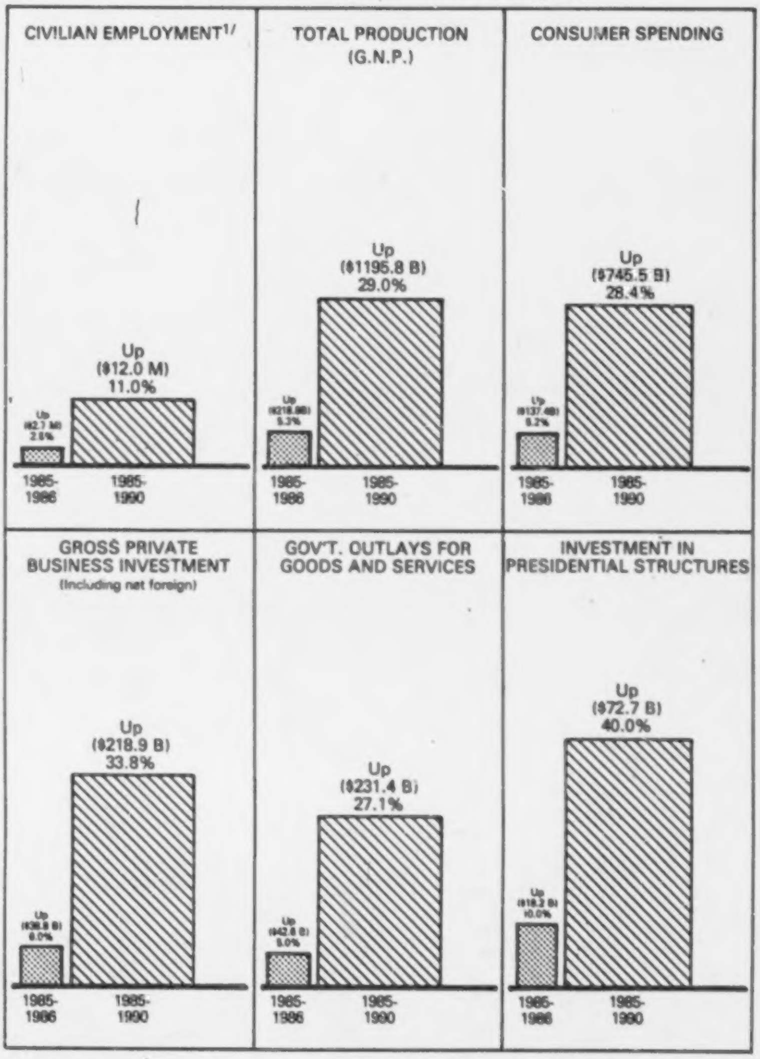


Basic Data: Dept. of Commerce.

CHART 7

MAJOR GOALS FOR 1990, CONSISTENT WITH REDUCTION OF UNEMPLOYMENT TO 4.0 PERCENT BY 4Q1990

Total Percentage Changes
(Dollar Items in 1984 Dollars in Parentheses)

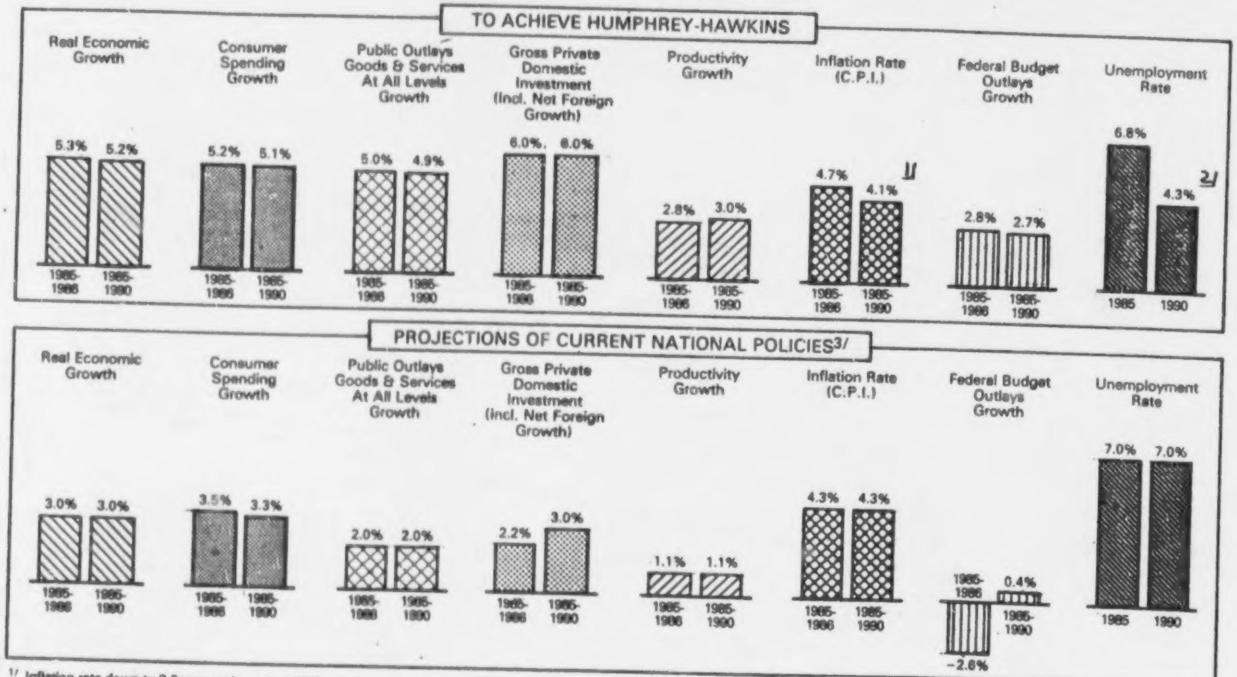


[1] Full-time unemployment down from 6.8% (8.0 M) to 6.3% (7.3 M) in 1986, 4.3% (5.5 M) in 1990, and 4.0% (5.1 M) in 4Q1990.

CHART 8

GOALS TO ACHIEVE GOALS OF HUMPHREY-HAWKINS COMPARED WITH PROJECTIONS OF CURRENT NATIONAL POLICIES

(Average Annual Rates in Real Terms)



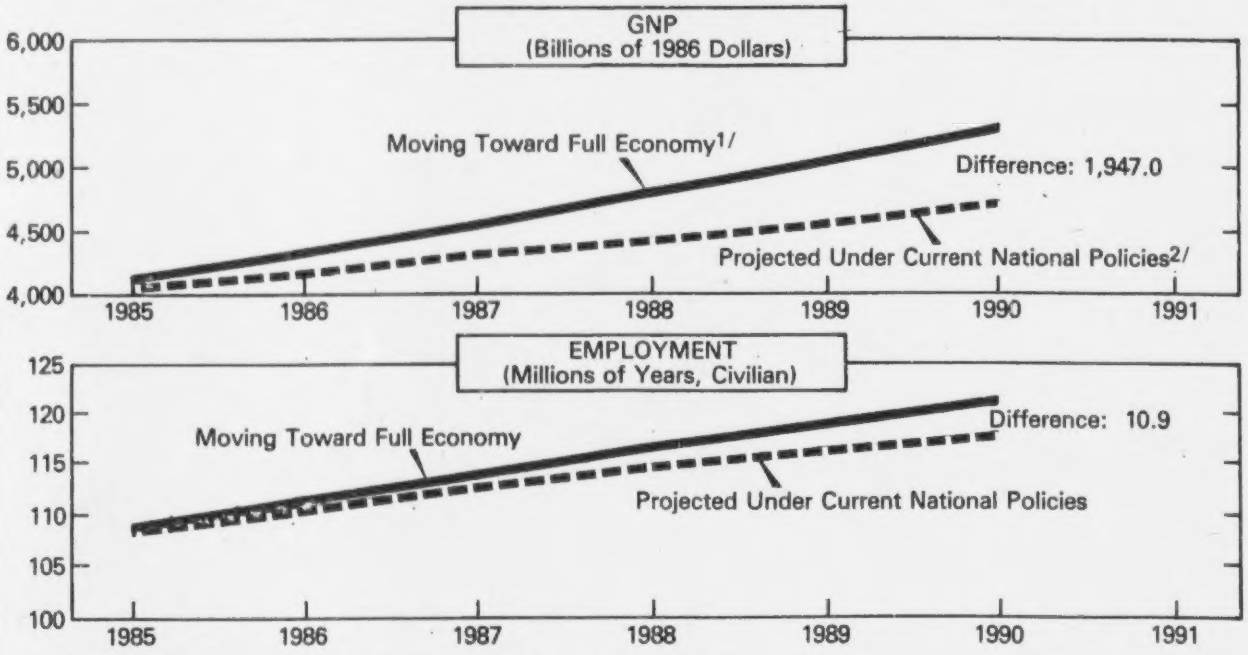
[1] Inflation rate down to 3.0 percent by end of 1990.

[2] Unemployment rate 4.0 percent by end of 1990.

[3] In making these projections, the Conference of Economic Progress has taken account of projections made by the Congressional Budget Office and by others, and its own projections are reasonably in accord.

CHART 9

BENEFITS OF MOVING TOWARD FULL ECONOMY, 1985-1990

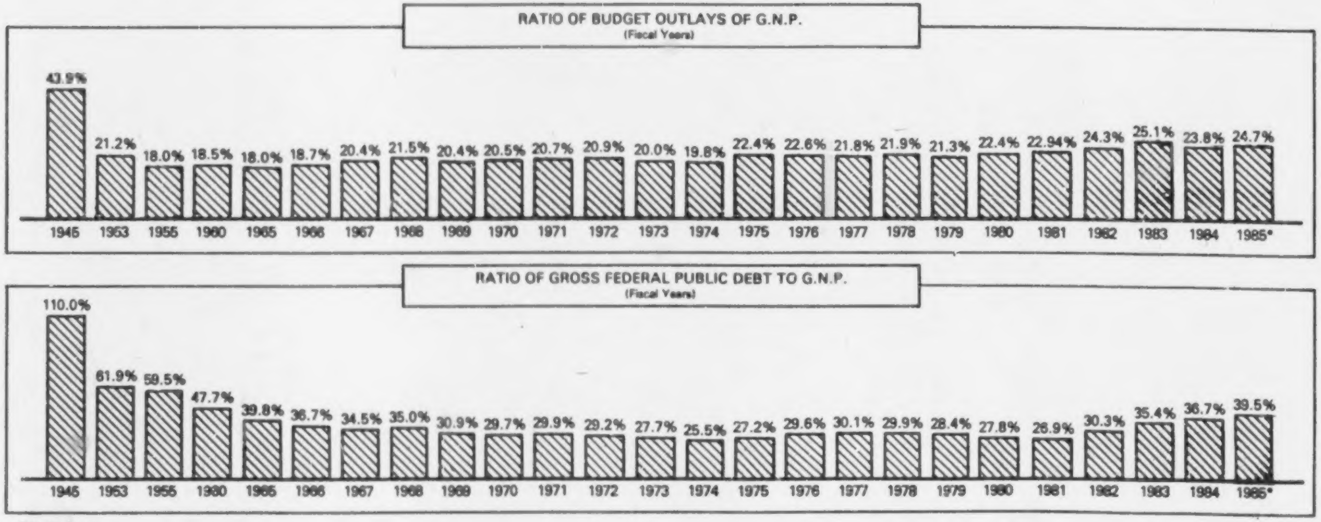


[1] Real average annual growth rate, 5.2 percent. Unemployment rate, end of 1990, 4.0 percent.

[2] Real average annual growth rate, 3.0 percent. Unemployment rate, 1990, 7.0 percent.

CHART 10

FEDERAL BUDGET OUTLAYS, GROSS FEDERAL PUBLIC DEBT, AND G.N.P. 1945—1985

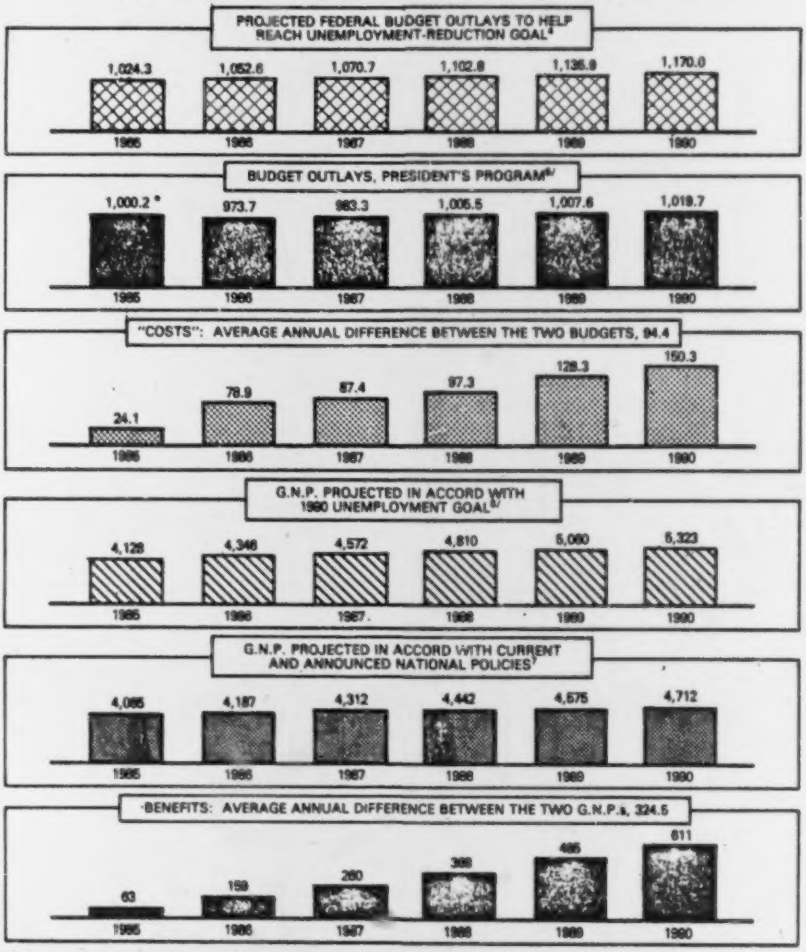


*Preliminary

CHART 11

"COSTS"[1] & BENEFITS[2] THROUGH 1990, CONSISTENT WITH REACHING UNEMPLOYMENT-REDUCTION GOAL[3] BY 1990

(Budget, fiscal years; G.N.P., calendar years; billions of fiscal year 1986 dollars)



[1] "Costs" are the difference between Federal Budget outlays needed to help achieve 1990 unemployment-reduction goal and President's Budget Program.

[2] Benefits are the difference between G.N.P. in accord with 1990 unemployment-reduction goal and G.N.P. projected in accord with reasonably estimated projections of recent national policies and programs.

[3] 4 percent unemployment (3.0% adult) by end of 1990.

[4] The average annual real growth rate in Budget outlays used for these projections is 4.0 percent, projected from fiscal 1984.

[5] The lower Budget is 1.7 percent real average annual rate, 1984-1990.

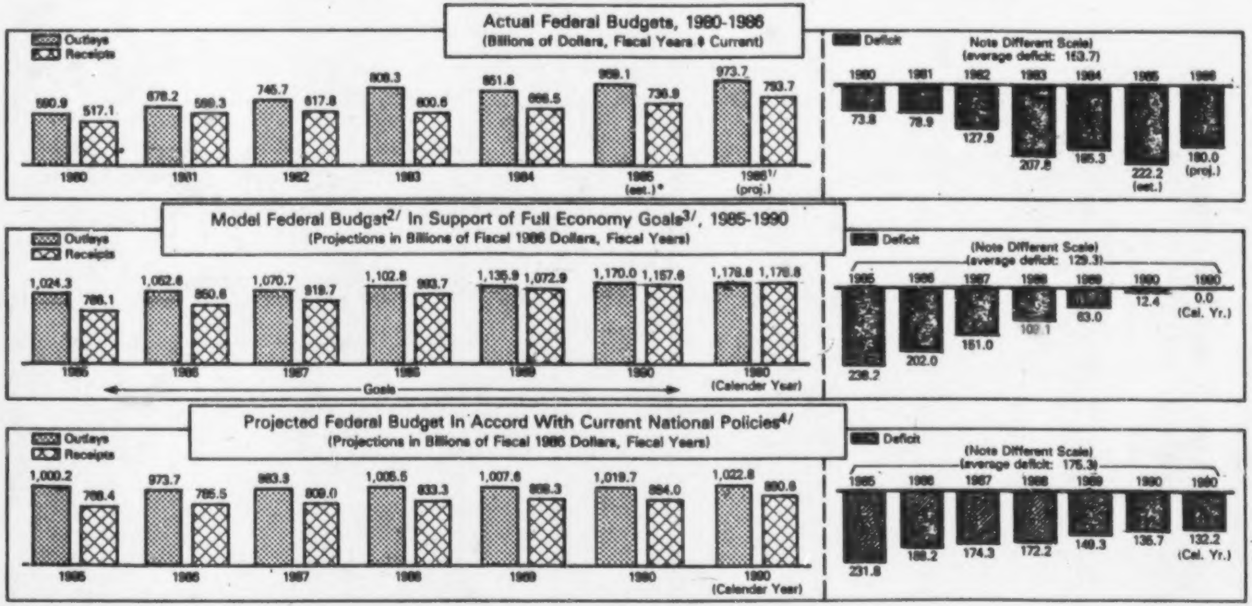
[6] The real average annual growth rate used for these projections is 5.2 percent, projected from calendar 1984.

[7] Average annual growth rate projected at about 3.1 percent from calendar 1984.

* Est. as of Feb. 1985

CHART 12

FROM FEDERAL DIFICITS IN AN UNHEALTHY ECONOMY TO A HEALTHY BUDGET IN A HEALTHY ECONOMY



1/ President's Budget, estimate as sent to the Congress on February 4, 1985.

2/ Model Federal Budget outlays depicts in detail on another chart. Goals would be higher in each year's dollars to extent prices rise above fiscal 1986 dollars.

3/ Full economy goals shown on another chart.

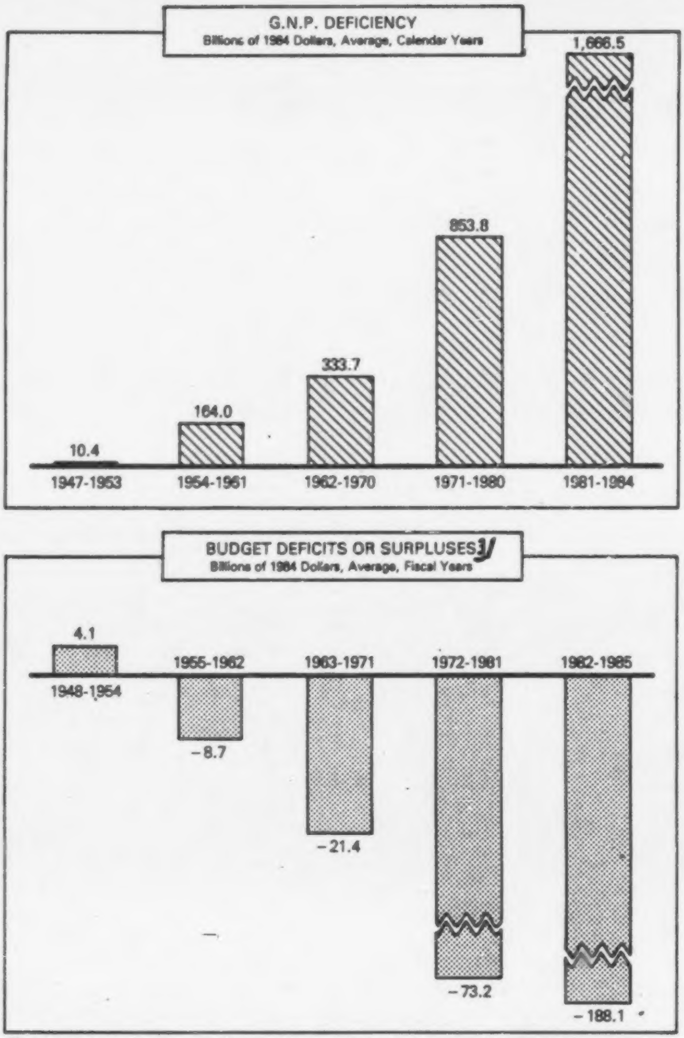
4/ Outlays, President's 1986 Budget. Receipts for fiscal 1985 as in President's Budget. Later receipts estimated, based upon 3.0% average annual rate of real economic growth, 1985-1990. President's 3.9% rate deemed too optimistic under projection of current policies and programs.

* Est. as of Feb. 1985

Basic Data: Office of Management and Budget for actual Federal Budget.

CHART 13

G.N.P. DEFICIENCIES[1] AND BUDGET DEFICITS CALENDAR 1947-1984[2] & FISCAL 1948-1985[2]



[1] Production deficiencies represent differences between actual production and production at full economy rate growth. Projections from 1946. Allowing for nonrecouperable losses, over the years, GNP 350-400 billion below full economy in 1984.

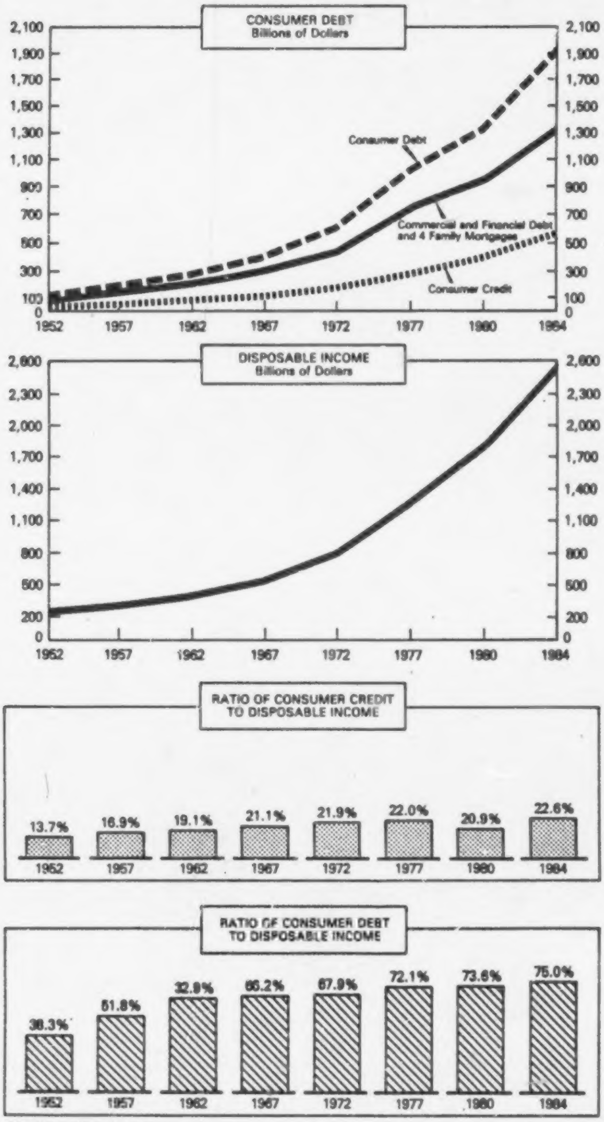
[2] Fiscal 1985 estimated.

[3] Includes off-budget Federal outlaws proposed to be included under current law.

Source: Dept. of Commerce; Office of Management and Budget, for actual figures.

CHART 14

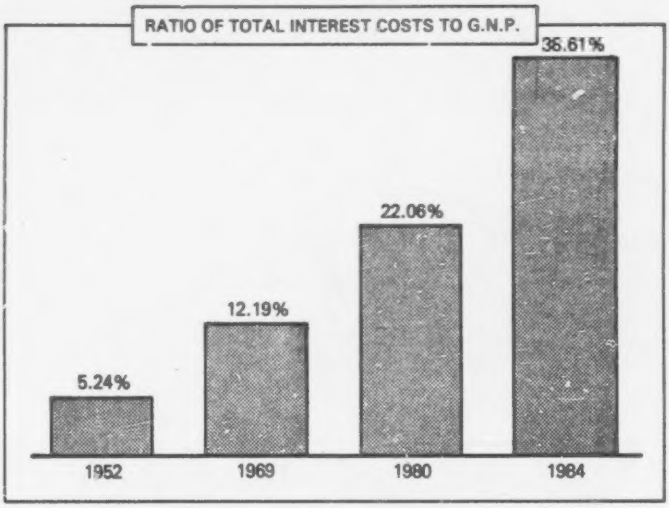
RISING CONSUMER CREDIT AND DEBT IN RATIO TO DISPOSABLE INCOME, 1972-1984[1]

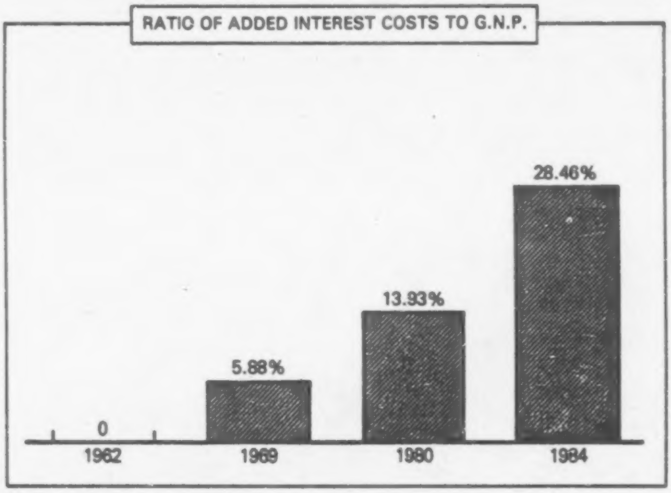


1/ 1984 partly estimated
Basic Data: Dept. of Commerce, Federal Reserve Board

CHART 15

RISING RATIO OF TOTAL 1/ INTEREST COSTS AND EXCESS 2/ INTEREST COSTS TO G.N.P., 1952 – 1984 3/





1/ Federal, State, local, and private.

2/ Additional costs due to rising interest rates since 1952.

3/ 1984 estimated.

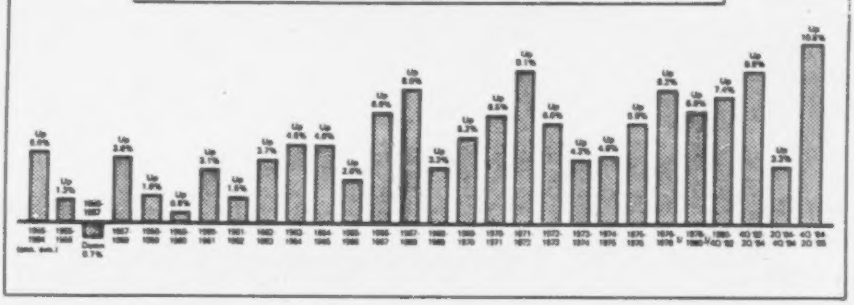
Basic Data: Dept. of Commerce, Federal Reserve Board.

CHART 16

COMPARATIVE TRENDS IN NON-FEDERALLY HELD MONEY SUPPLY AND G.N.P., 1955—2Q 1985

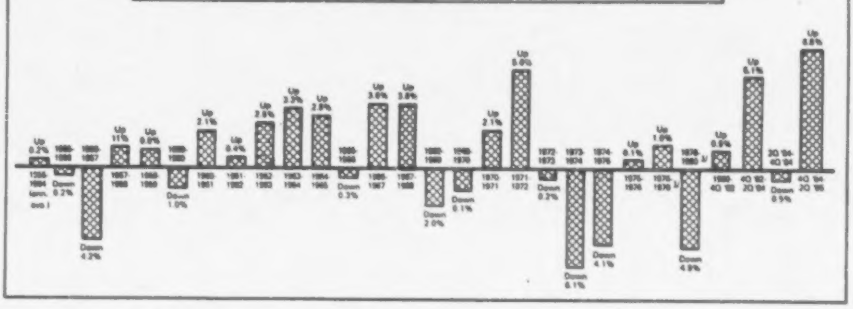
ANNUAL GROWTH IN NON-FEDERALLY HELD MONEY SUPPLY

(Based on Seasonally Adjusted December Data)



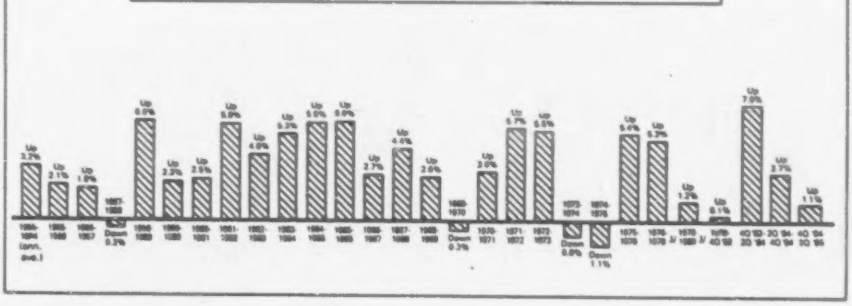
REAL ANNUAL GROWTH IN NON-FEDERALLY HELD MONEY SUPPLY

(As Adjusted for Trends in C.P.I.)



ANNUAL GROWTH IN GNP

(Uniform Dollars)

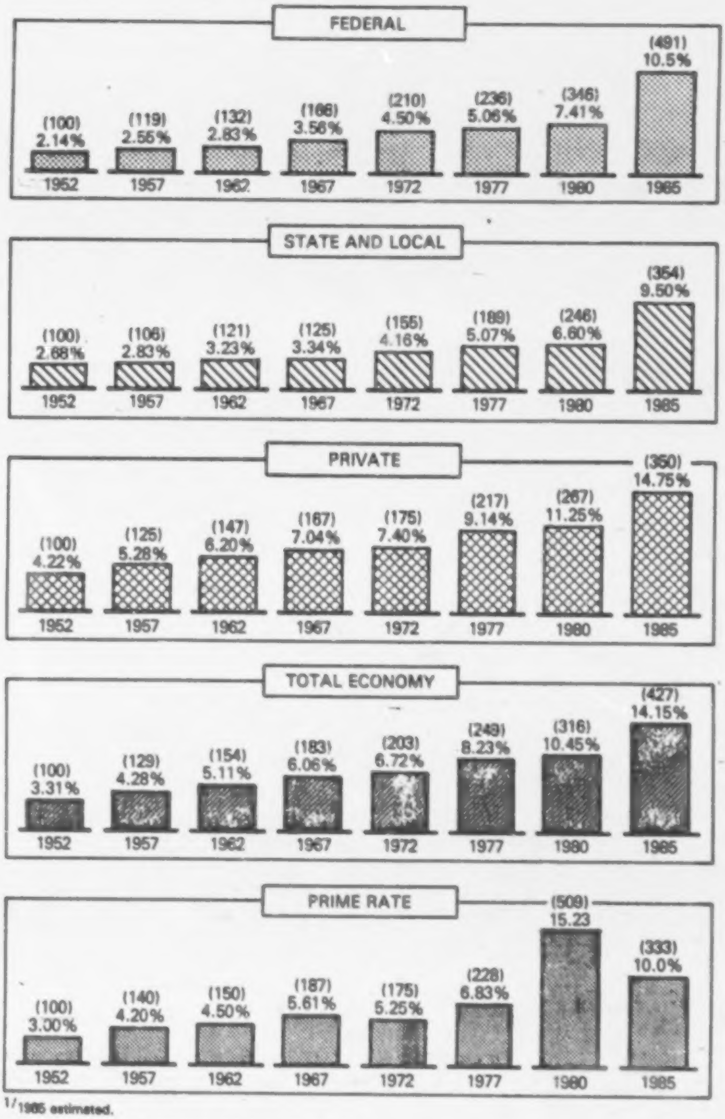


1/ Two year averages used to save space.

Data: Dept. of Commerce; Dept. of Labor; Federal Reserve System

CHART 4

THE SOARING INTEREST RATES, 1953-1985[1/]
(INDEXES SHOWN IN PARENTHESES)

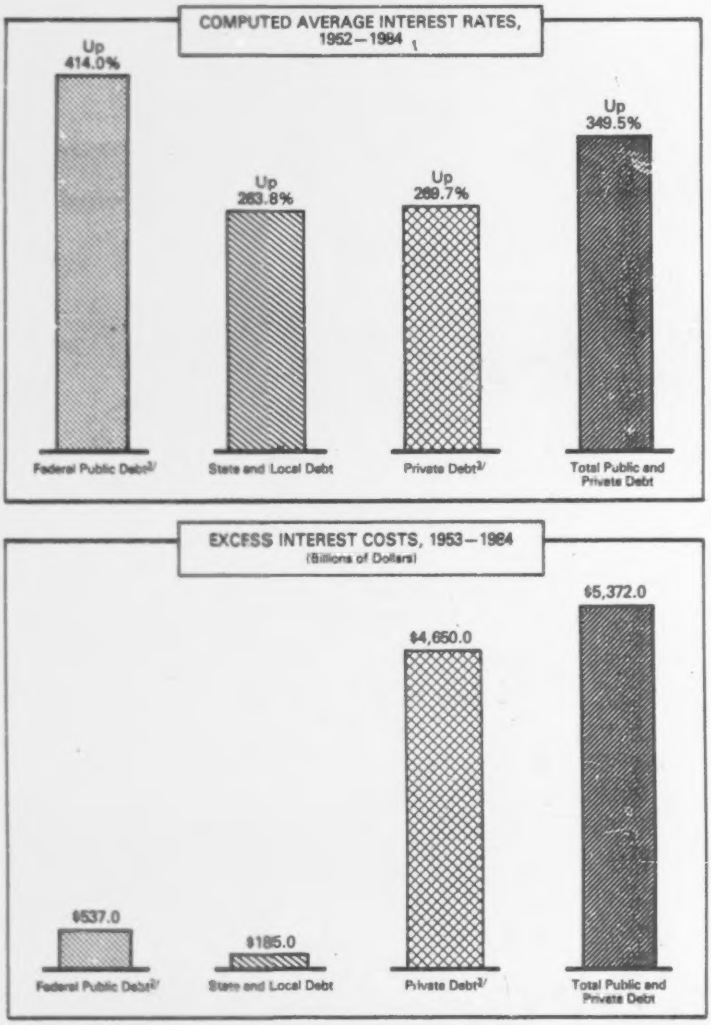


[1/] 1985 estimated.

Basic Data: Dept. of Commerce, Federal Reserve Board

CHART 18

INCREASES IN AVERAGE INTEREST RATES, AND EXCESS INTEREST COSTS DUE TO THESE INCREASES, 1952—1984[1]



[1] 1984 Estimated.

[2] Includes net foreign interest.

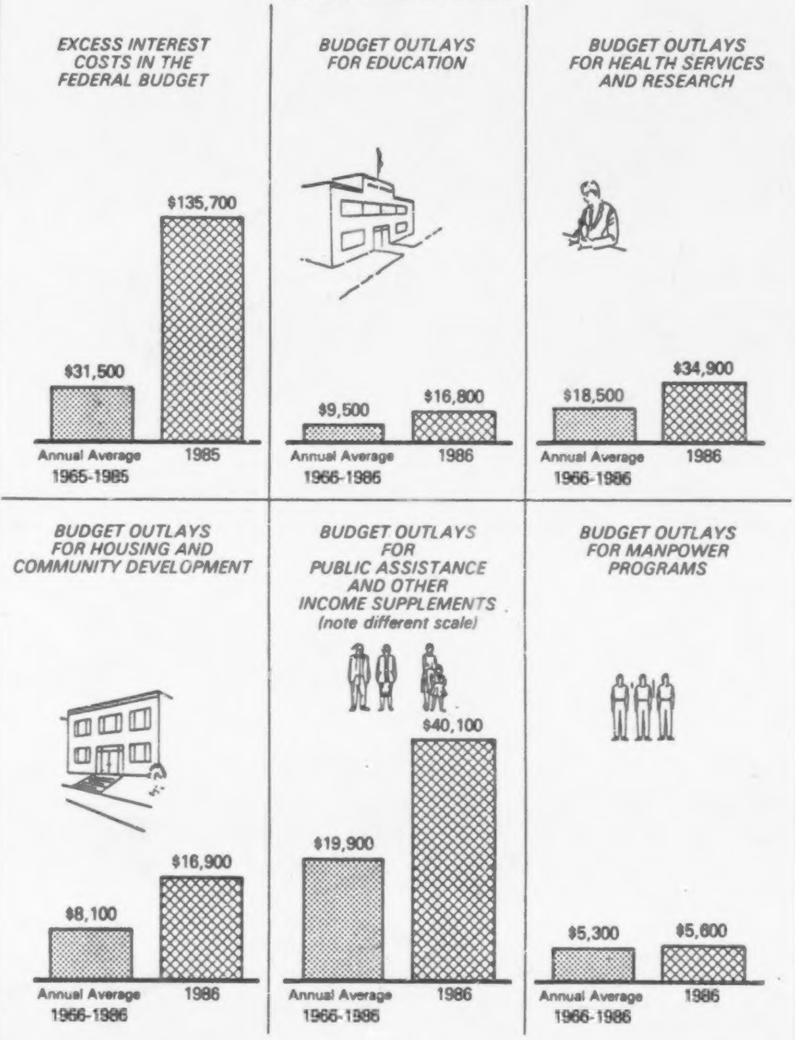
[3] Private debt series has been discontinued by Government. Estimates from 1977 forward based on historical data and current trends in interest rates.

CHART - 19

EXCESS INTEREST COSTS1/ IN THE FEDERAL BUDGET 1965—1985 CONTRASTED WITH OTHER OUTLAYS FOR SELECTED BUDGET PROGRAMS2/

INTEREST COSTS, CALENDAR YEARS; OTHER OUTLAYS, FISCAL YEARS

Millions of Current Dollars

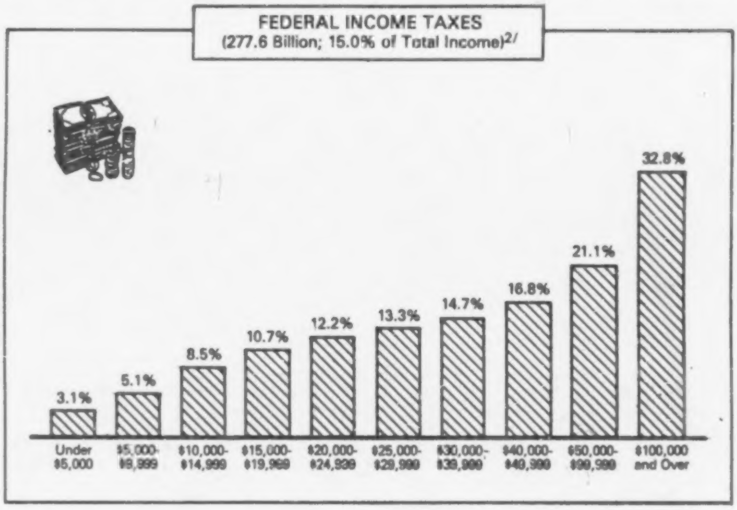


1/1977-1985 interest costs estimated.

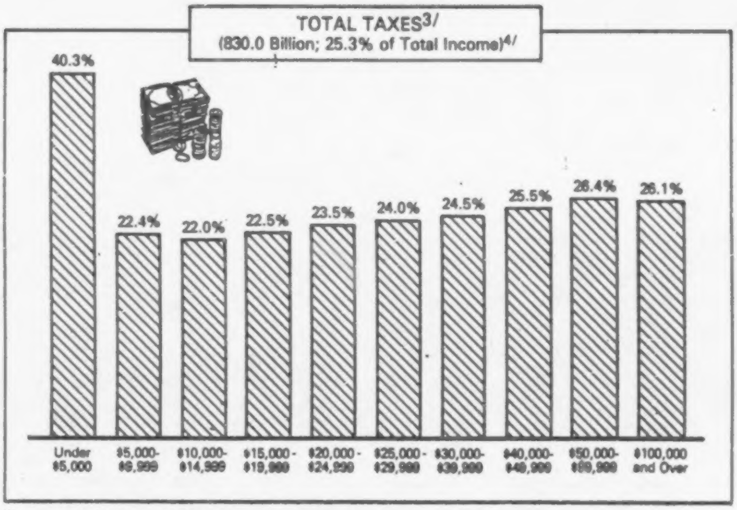
2/As shown for fiscal 1986 in President's Budget, February 4, 1985.

CHART 20

TAXES PAID AS PERCENT OF INCOME, U.S., 1982[1]



FEDERAL INCOME TAXES
(277.6 Billion; 15.0% of Total Income)[2]



TOTAL TAXES[3]
(830.0 Billion; 25.3% of Total Income)[4]

[1] Latest available figures for Federal income taxes. Total taxes are estimated for 1982.

[2] Income is adjusted gross income less deficit of all persons in the income class shown. Adjusted gross income is total income from all sources less certain exclusions such as accident and health insurance proceeds, child support payments, depreciation, etc.

[3] Includes the following Federal and State and Local taxes: Individual income, payroll, corporate profit, and social security. Also includes Federal excise and customs taxes, and State and Local sales taxes, motor vehicle licenses, property taxes, and miscellaneous other taxes.

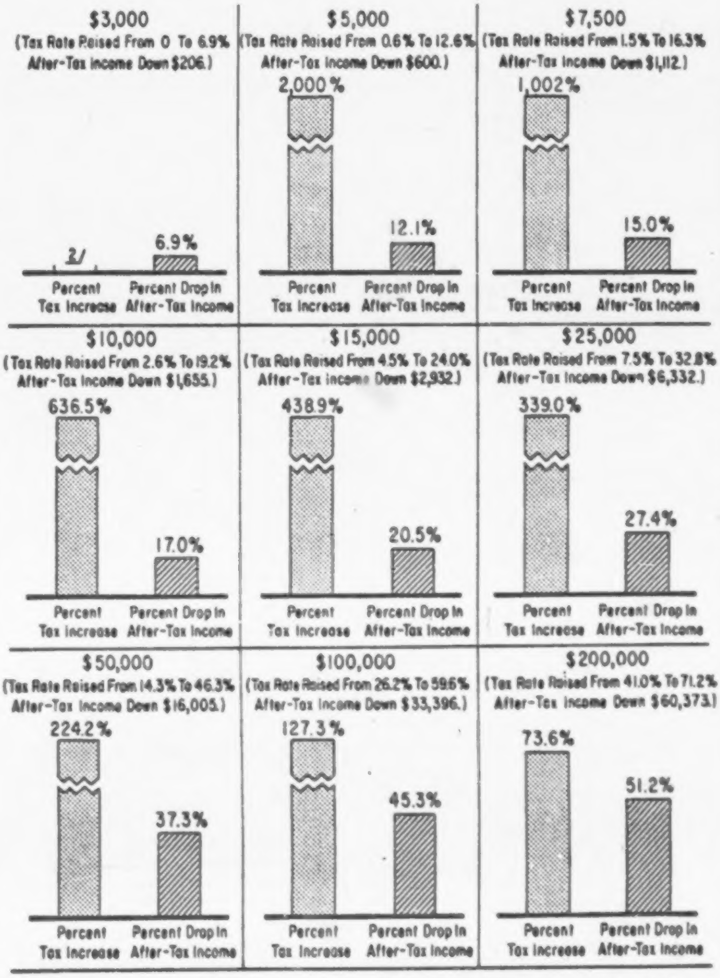
[4] Income is adjusted family income. Percentages are estimates based upon a study by Joseph A. Pechman, *Who Paid the Taxes, 1966-1985* (Brookings Institution 1985).

Basic Data: Internal Revenue Service, Brookings Institution.

CHART 21

PERSONAL TAX INCREASES, 1939-1945

Percent Federal Tax Increase And Percent Decrease In After-Tax Income Married Couple With Two Children At Various Income Levels[1]



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[1] Federal tax for 1939 and 1945, as applied to adjusted gross income, estimated by CEP, assuming 10 percent deduction for taxes, interest, contributions, etc. Allowance was also made for earned income credit in 1939.

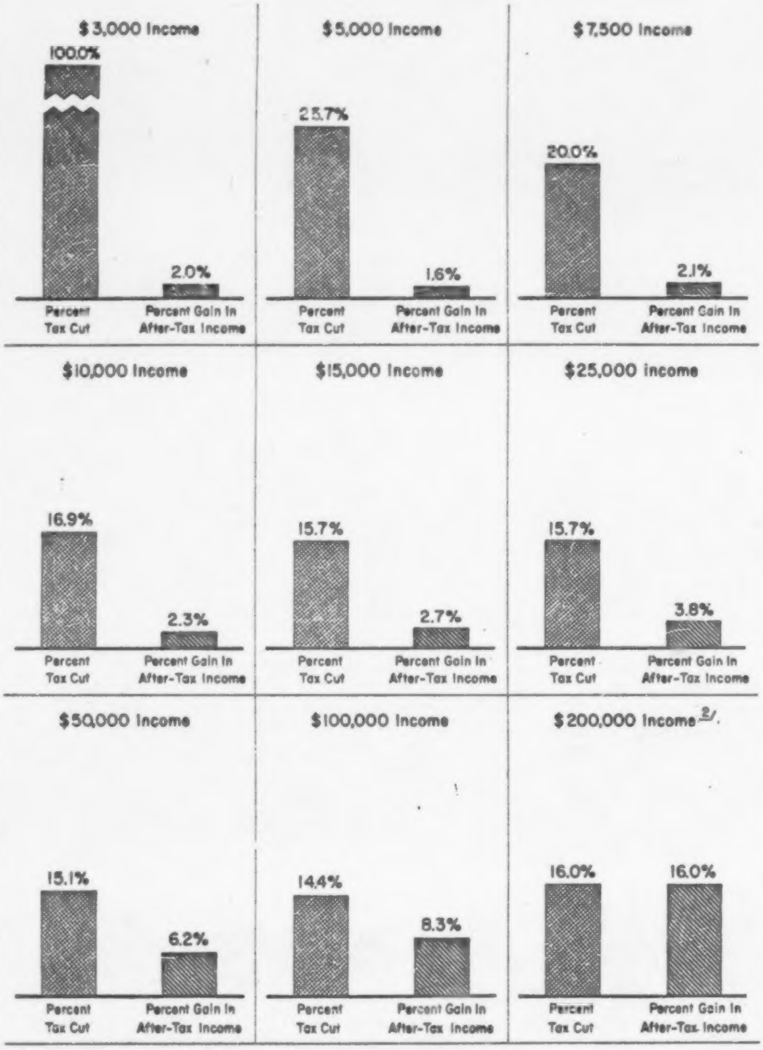
[2] No tax at this level in 1939.

Note: Tax rates shown are effective tax rates.

CHART 22

1964 TAX ACT, PERSONAL TAX CUTS

Percent Tax Cut And Percent Gain In After-Tax Income
Married Couple With Two Children At Various Income Levels [1]



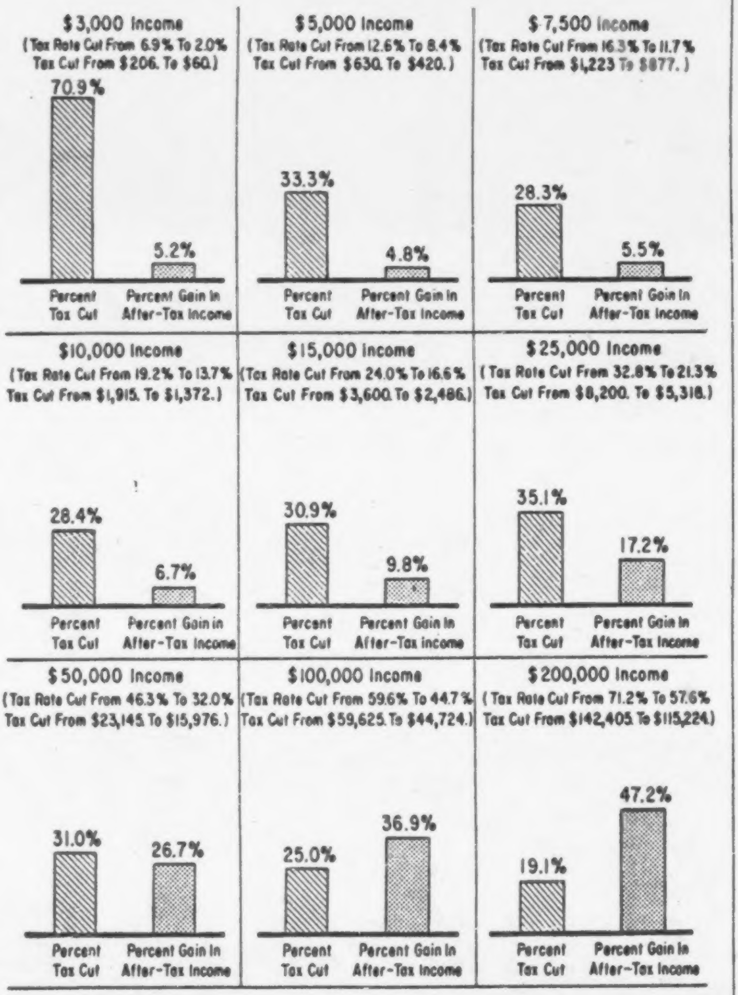
[1] Adjusted gross income levels. [2] Estimated

Note: Standard deductions for $ 3,000 income level. Typical itemized deductions for other income levels.

CHART 23

PERSONAL TAX CUTS, 1945-1963:

Percent Federal Tax Cut And Percent Gain In After-Tax Income
Married Couple With Two Children At Various Income Levels[1/]



[1/] The amount of Federal tax, as applied to adjusted gross income, was estimated for 1945 by CEP and for 1963 by Treasury Dept. Both estimates assume 10 percent deduction for taxes, interest, contributions, medical care, etc.

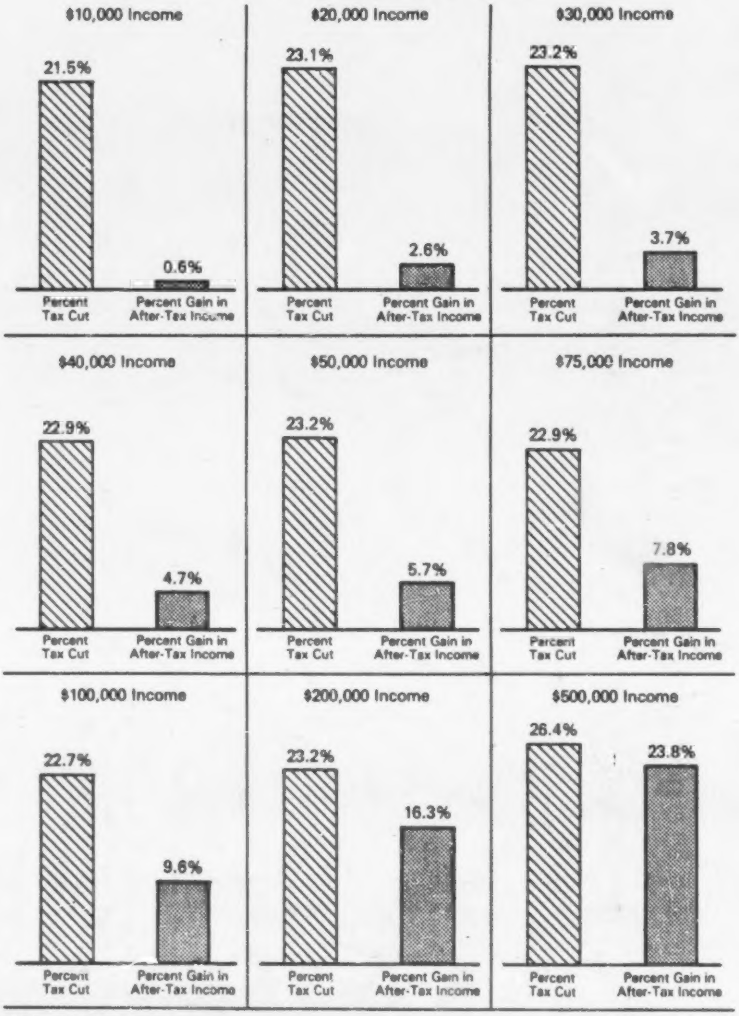
Note: Tax rates shown are effective tax rates.

CHART 24

PERSONAL TAX CUTS UNDER ECONOMIC RECOVERY ACT OF 1981

(Effects As of 1984)

Percent Tax Cut And Percent Gain In After-Tax Income
Married Couple With Two Children At Various Income Levels[1/]



[1/] Adjusted gross income.

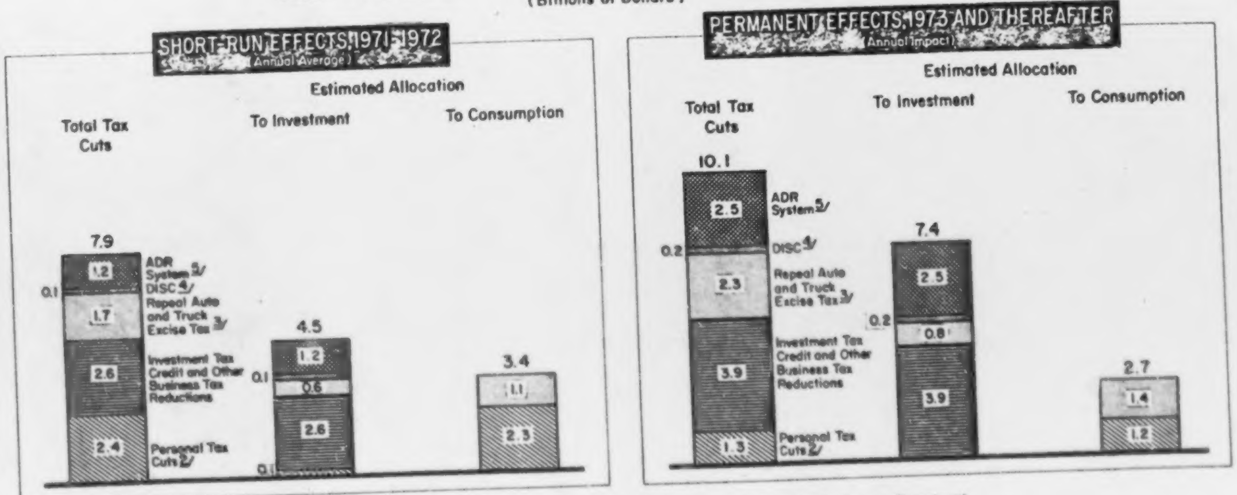
Note: Estimated average deductions for each income level from 1982 joint returns.

Basic Data: Internal Revenue Service.

CHART 25

ALLOCATION OF 1971 TAX CUTS[1]: BETWEEN INVESTMENT AND CONSUMPTION

(Billions of Dollars)



[1] H.R. 10947, as reported by the House-Senate Conference Committee, and Asset Depreciation Range (ADR) System promulgated by the Treasury Department.

[2] Allocation to investment based on portion of cuts for those with income over $15,000, which they would save; remainder allocated to consumption.

[3] Allocation between investment and consumption based on business or nonbusiness use of vehicles.

[4] Tax deferral by Domestic International Sales Corporations (DISCs).

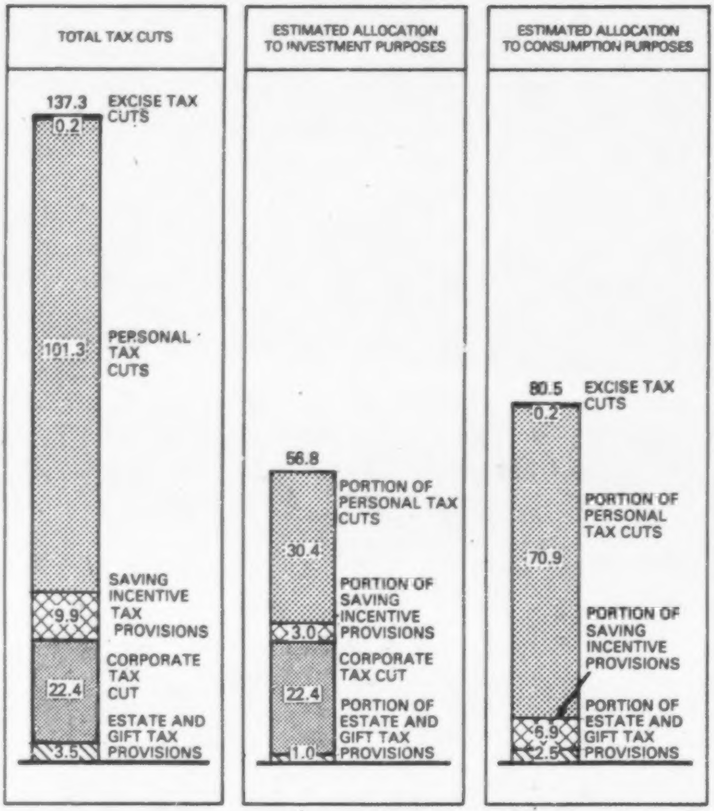
[5] Treasury regulations as modified by H.R. 10947 as reported by the conference committee.

Note: Components may not add exactly to totals, owing to rounding.

CHART 26

ALLOCATION OF TAX CUTS TO INVESTMENT AND CONSUMPTION PURPOSES UNDER ECONOMIC RECOVERY ACT OF 1981:

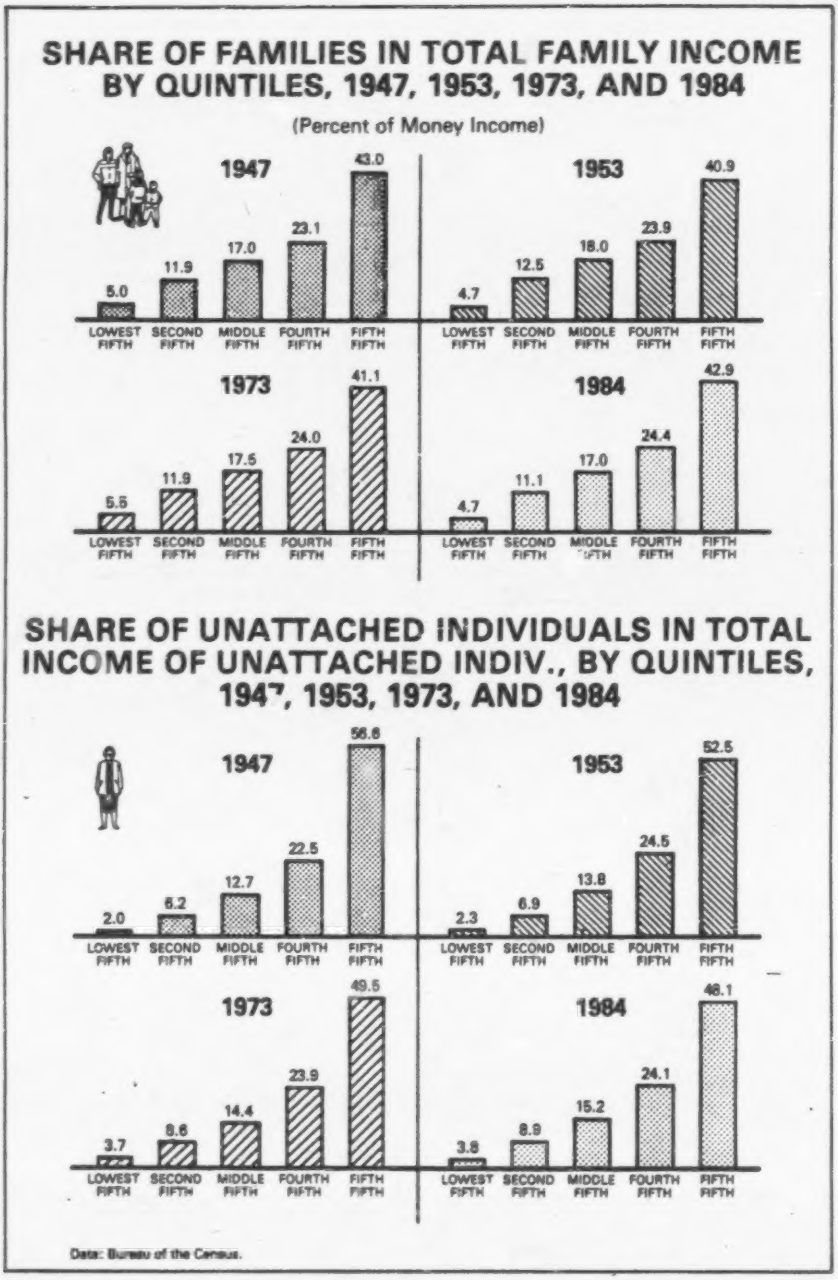
Effects As of 1984
(Billions of Dollars)



Note: As consumption dollars were about 5½ times gross private domestic investment dollars in 1984, adjustment for this means that the allocation to investment was more than 2½ times the allocation to consumption (9% vs. 3.4%).

Basic Data: 1986 Budget of the United States Government.

CHART 27



SHARE OF FAMILIES IN TOTAL FAMILY INCOME BY QUINTILES, 1947, 1953, 1973, AND 1984

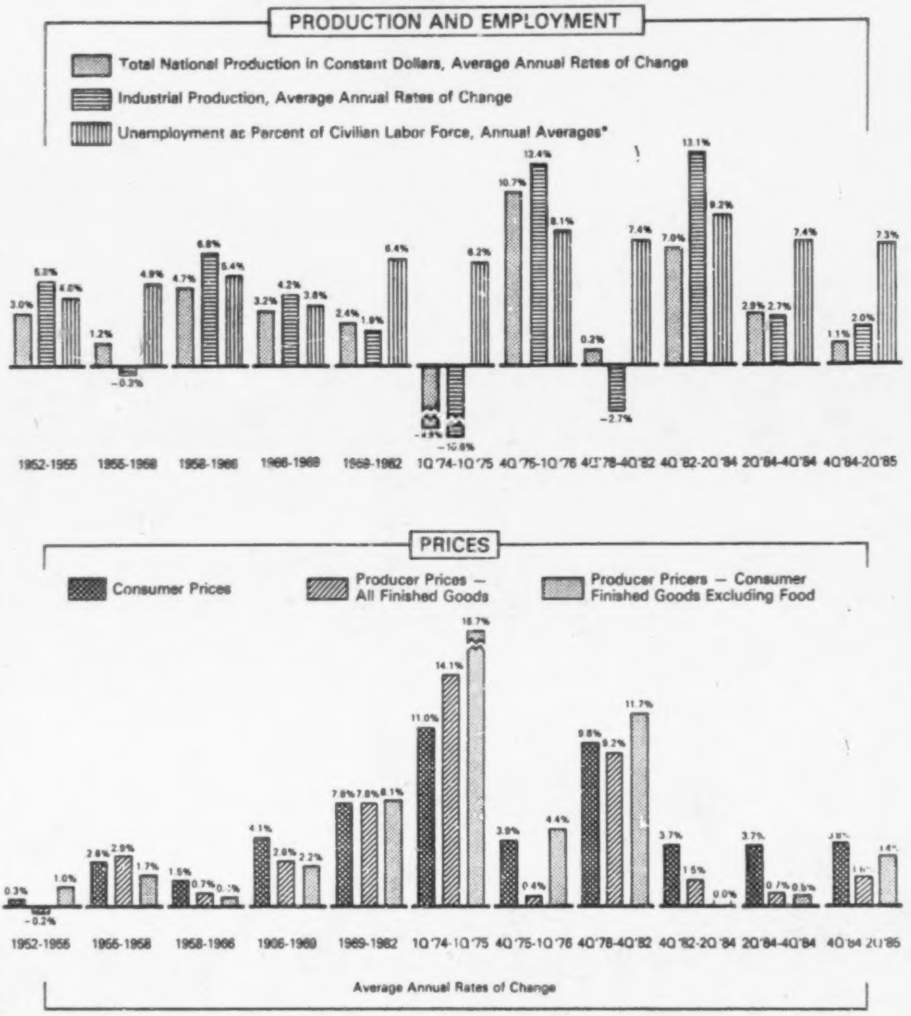
(Percent of Money Income)

SHARE OF UNATTACHED INDIVIDUALS IN TOTAL INCOME OF UNATTACHED INDIV., BY QUINTILES, 1947, 1953, 1973, AND 1984

Data: Bureau of the Census.

CHART 28

RELATIVE TRENDS IN ECONOMIC GROWTH UNEMPLOYMENT & PRICES, 1952 — 2Q 1985

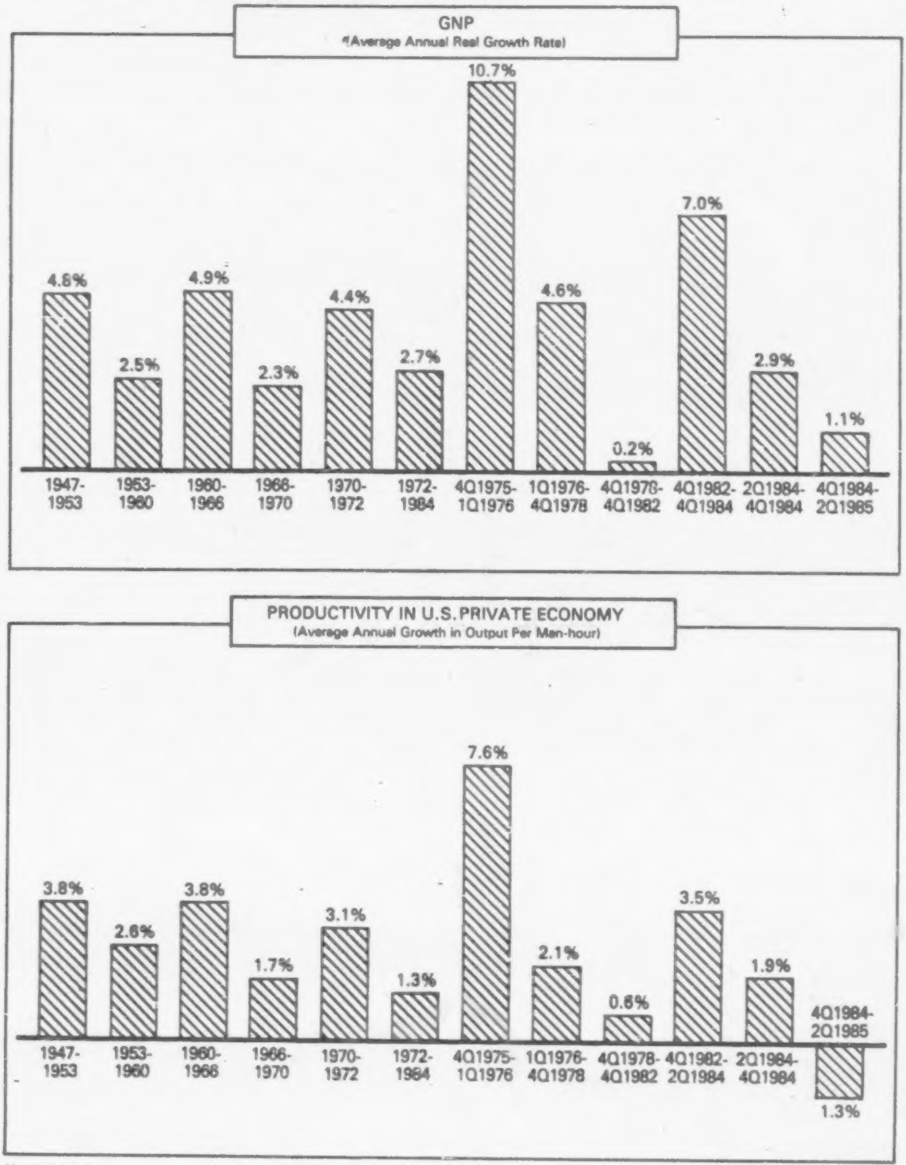


* These annual averages (as differentiated from the annual rates of change) are based on full-time officially reported unemployment measured against the officially reported Civilian Labor Force.

Source: Dept. of Labor, Dept. of Commerce, & Federal Reserve System.

CHART 29

IMPACT OF ECONOMIC GROWTH UPON PRODUCTIVITY GROWTH 1947—2Q 1985



[1] 1984 Preliminary

Source: Dept. of Labor, Dept. of Commerce

Chairman **Hawkins**. Thank you very much.

We will question all three of you witnesses when the other two have completed their testimony.

I am pleased next to call on Dr. Klein.

Dr. Klein, we welcome you again to the committee, and your statement in its entirety will be printed in the record.

STATEMENT OF DR. LAWRENCE KLEIN, DEPARTMENT OF ECONOMICS, UNIVERSITY OF PENNSYLVANIA

Dr. **Klein**. Thank you, Mr. Chairman.

I want to congratulate you for keeping the full employment issue here before us, because it gradually slips in people's minds and in people's concepts, and we need to be reminded.

Now, I want to try to focus in these comments on what is more properly a figure, or a concept of full employment, as opposed to what is commonly talked about these days. And in order to do that, I want you to think a little bit about some of the things that Dr. Keyserling mentioned, 40 years ago when we had the Full Employment Act as a landmark piece of legislation, and also, approximately 10 years ago, when we considered the Humphrey-Hawkins bill, and had problems of defining what the full employment target would be.

In my opinion, most economists accepted the figure of 4 percent as a national unemployment rate right after the Second World War, on occasion it was 3.5 percent, but 4 percent was considered a pretty good figure. And in the expansion area period of the 1950's and 1960's, which was truly a great period of economic expansion it fluctuated between 3.5 and 5.5, and when we had recessions, there was a tendency for the rate to get bigger.

But it looked like quite a good rate there.

Now, as time went on, we had very low rates during the Korean war and during the Vietnam war, but in the 1970's, it became so difficult to get back to full employment—I don't think it was at all—to 4 percent, I don't think it was an impossible figure, but I think people didn't want to make the appropriate effort to get there, and they accepted a weaker target.

Now when the Humphrey-Hawkins legislation was being considered many economists thought it was quite unrealistic and unreasonable to talk about 4 percent, and there was a drift among technicians to accept a much higher rate of unemployment as full employment unemployment, and I think that was primary because other priorities dominated their minds and the appropriate thinking and effort was not put to the task.

During the 1970's, particularly when we were faced with extremely high and rising energy prices, we devoted so much attention to becoming energy efficient. I think that was a very good thing to do, but we devoted so much attention to that, that we had very poor employment performance during that period. And I think the rate of full employment unemployment drifted even higher. And what was once a 5-percent rate, then became a 6- or a 7-percent rate.

There were great inflationary pressures while we were trying to become energy-efficient.

Now, there were two things of great importance that happened during the 1970's that contributed to the high rate, and contributed to the upward drift of what people accepted as full employment. One was the change in labor force participation rate, it had been moving only gradually and was almost stagnant for a long time. But it was principally associated with more women entering the paid labor force, and also, with the absorption of the high-birth cohort that followed World War II, the so-called baby boom generation.

Those were very important demographic trends in the United States that made it very difficult for us. I wouldn't say impossible, but difficult to get back to 4 percent as a reasonable target.

Now, in the 1980's, we can detect a considerable slowing down in the rate of labor force expansion. We had been growing at rates between 2 and 3 percent, and now we are fairly consistently seeing rates below 2 percent. And in 1983, it was as low as 1.2 percent.

Now, I don't want to use demographics as a kind of a crutch to get back to a good figure that I would like to see chosen as a full employment target, but it is something that is happening, and we must take it into account.

Also, much of the discussion on the Humphrey-Hawkins bill and its targets considered the short run, and when we would be able to get to the established target of 4 percent. And if we look at it at the end of this decade, and take account of the demographic trends, I think then we have a considerably better chance, and less provocation and dispute about what is an attainable figure.

Now, I think a good functioning American economy should be able to provide jobs at a full employment rate of 4 percent for any one who is capable, able bodied, seeking honest work. And I don't want to rely too much on the demographic trends, because if women want to work and enter the labor force at a high rate, then we ought to be capable of providing a very good employment opportunity for them.

Nevertheless, this is an important factor.

Now, in addition to these demographic trends that have given rise in the seventies to high unemployment rates and slippage in what we would consider to be full employment, there are three things that I mention in my paper—I am sure there are more—one is the industrial transition that is taking place at the present time. The other is changes in labor productivity, and the third is wage rates.

Now, with respect to the industrial transition, there isn't any doubt that we are having a shift in this country, a shift all around the world and it is well known, well established, the shift away from manufacturing. We may have had an exaggerated movement of a cyclical nature in the last few years, but in the long run there is a shift. And when we have a significant shift like this, there will be a lot of people changing jobs, a lot of people needing retraining. There will be new products coming on to the market and old products going off.

But I think we are able to cope with the new technologies. And, indeed, many of the gains in jobs and employment that have taken place over the past few years have been in areas producing what I call the hardware and the software for some of the new technologies. And in the early stages that would certainly be important.

Many people are seriously worried about the possibilities of extremely high productivity and labor displacement from the new technologies. I don't worry about that in the short run, because we do need people for producing the hardware and the software, and that is taking place.

However, there is a possibility that there would be some very significant gains in labor productivity and there is a relative question what will this do to labor requirements of the next decade, or so.

In my opinion, we have a safety valve and that safety valve should not be implemented on a short run cyclical basis, but in the medium term, or the longer run that safety valve should be a shorter workweek and some increased consumption of leisure on the part of the population. That is a mark of economic progress. We have moved from 60-hour weeks, to 40-hour weeks, to 37-hour weeks, and I think we ought to accept that as significant progress.

I daresay there will be another downward movement in the length of the working week in the period to come. And the combination of the need for people in the new technologies, plus the possibility of shortening the workweek in the longer run, leads me to be fairly optimistic about industrial-technological trends at the present time.

Now, the other kind of consideration that I look upon as a special factor influencing what we are going to call full employment is movement of wage rates. A very classical approach, and indeed, I think this is an approach that has been followed, both in Western Europe and in the United States for the past few years, has been to fight inflation, bringing down the level of wages and also, creating more unemployment. And the classical approach would be to push down wages, in order to bring up employment opportunities and bring down the concept of what we would call full employment unemployment rate.

Now, at the present time wage rates have been cut back, basically, in this country we have moved down from rates that were growing in the neighborhood of 10 percent a year to rates that are growing in the neighborhood of 4 percent a year. And I think as far as we can see into the near future, rates are likely to stay at that low base.

Of course, inflation has come down at the same time, and that looks like a reasonably steady picture. I don't think there are any other possibilities for any kind of reasonable social and economic point of view, for looking to further declines in wage rate as a way out of this situation.

Now, trying to look ahead, taking into account the trends that we can see in money markets and monetary policy, fiscal policy, movements of the dollar and export possibilities that loom on the horizon when this drop of the dollar percolates its way through the system, I would say that the natural pattern of the economy suggests that the unemployment rate will come down some more, but it is very difficult to see it getting very much below 6 percent. It could be more favorable than I am suggesting at the moment, and we could see a rate of 5 percent. But it is more likely to be in the neighborhood of 6 percent as we approach the next few years, the end of this decade.

Now, I say there is a way to go, and on the one hand, we could have more vigorous implementation of what are called the macroeconomic policies. We could have a more vigorous movement downward of interest rates and an easier monetary policy.

I think if we had the budget cutting of the Gramm-Rudman-Hollings type, without any accommodation on the monetary side, we will generate a recession. And that will do just the reverse of what we are looking for as far as unemployment is concerned.

On the other hand, if we pursue a moderate approach on budget cutting, deficit cutting, and at the same time have a good deal of monetary accommodation, which I think is possible in this world of falling energy prices and lower inflation rates, then I do believe that we can, indeed, avoid a recessionary impact and that would be the kind of path that would get us certainly to a 6 percent unemployment rate.

Now, how can we go further? One of the things that impressed me most about the final legislation that was passed in Humphrey-Hawkins bill was that in the very beginning they said that macropolicies are not enough. And asked for the necessary policies to achieve the targets, and I would say those, to me, mean structural policies, or specific targeted policies that are aimed at youth unemployment, that are aimed at segments of the work force that are very significantly involved in the transition from the older technologies to the new technologies.

That involves training schemes, that involves information systems on matching workers to jobs, that involves special tax credits and those kinds of policies, together with fiscal policies that stimulate capital formation. And unfortunately, they don't get a very good place in the new tax-revision legislation that is being considered.

But if they did, or were kept at a more favorable position that we have had in recent years, then I think it is possible to foresee the Humphrey-Hawkins targets by the end of this decade. Four percent is not an unreasonable number, it is an achievable number, but it is really a question of putting together the right kinds of policies.

Now, we are speaking quite generally of overall unemployment rates, and the overall movement of the economy, but the bothersome thing, in addition to achieving this good goal of what we would call full employment, is to be concerned with the distribution of unemployment, the rates of unemployment among certain groups of our population—teenage groups, northeast urban center groups, various racial groups are really shockingly high.

We are not going to deal with that problem because they have been very resistant to change. We are not going to deal with that problem, unless we diversify our policies enough to have a good measure, a structural policy, a targeted policy, in addition to these overall policies.

Thank you.

[The prepared statement of Dr. L.R. Klein follows:]

PREPARED STATEMENT OF DR. L.R. KLEIN, DEPARTMENT OF ECONOMICS, UNIVERSITY OF PENNSYLVANIA

Some forty years ago, there was great fear of slipping back into the economic phase of high unemployment that was prevalent during the 1930s in the United States, and also in many other parts of the world. The enactment of the Employment Act of 1946 was a landmark in socio-economic progress by serving to keep the economy in a state of high employment.

At the start of the second World War the unemployment rate stood near 10 percent and was much higher during the Great Depression. The social legislation of the New Deal period laid the groundwork for the installation of many automatic stabilizers. These, together with positive economic policy and the requirements for worldwide reconstruction, brought the economy into an unprecedented phase of progress. The decades of the 1950s and 1960s will undoubtedly be cited by historians as remarkable growth eras for the industrial economies.

The American unemployment rate fluctuated mainly in the narrow range of 3.5 to 5.5 percent during this period, and occasionally slipped to values between 6 and 7 percent during recessionary periods, which were quite isolated. At this time, the full employment rate of unemployment was conventionally put at 4.0 percent. Occasionally a figure as low as 3.5 percent was used, but 4 percent was considered to be quite satisfactory. During the second World War the rate went almost as low as 1.0 percent, and that may be called a frictional minimum for an economy like ours. Such low rates will be achieved only under conditions of exhortation.

During the Korean War period, the rate dipped below 3 percent and in the Vietnam years it reached as low as 3.5 percent. There was a recession in 1969, and afterwards the unemployment rate rose until it was significantly above 5 percent. Administration economists, during the first half of the 1970s, often talked about returning to full employment, at 4 percent, but when it became difficult to achieve that goal the unemployment rate at full employment was redefined to be 5 percent or higher; so the search for policies that would return the economy to the 4 percent range was abandoned. Coming on the heels of frustration with the inability to win decisively in Vietnam, it is not surprising that there was a tendency to accept a weaker target, just as some military and political figures who were war weary decided that we could claim victory on the intractable battlefield even though we had not achieved an unquestioned victory.

When the Humphrey-Hawkins legislation of the mid 1970s asked for policies to return the economy to a 4 percent rate, many economists argued against the bill on the grounds that 4 percent was unreasonable and not capable of being realized. That may have been a good short run argument but not for a span as long as a decade or more.

The unemployment rate in the United States reached 10 percent during the 1981-82 recession, and we are now on a trend path towards improvement. The rate has been near 7 percent for some time, and it is worth inquiring whether the Humphrey-Hawkins target of 4 percent can be reached during the next few years, say by the end of the decade. This, in terms of our society's needs, appears to be a higher priority target than the goal of eliminating deficits or further reducing the inflation rate.

A reason for some to have been negative about the Humphrey-Hawkins targets was that the changes in terms of trade between the oil exporting and oil importing countries reduced our economic growth possibilities and thereby hurt employment from the demand side. During the decade following the oil embargo so much effort was devoted to achieving energy efficiency and conservation that growth and labor productivity suffered. It was, however, a successful transformation in our use of energy, and the present oversupply condition that is helping to bring down oil prices undoubtedly owes much to that effort.

It is reasonable to look in the future for enhanced growth prospects, and labor market statistics should benefit. There should be more new jobs and gradually falling unemployment. The reason why we must look at both the employment and unemployment aspects of labor markets is that labor supply conditions have shown a high degree of volatility and should continue to undergo some basic changes.

At the time that the economy shifted downwards to a slower growth rate, the labor force participation rate started to increase, mainly as a result of more women entering the paid labor force. Between 1950 and 1970, the overall labor force participation rate (percentage of noninstitutional population) rose from about 60 percent to about 61 percent. By 1980, the rate was just under 64 percent and has been rising steadily ever since. The rate of growth of the female participation rate has been from two to three times as large as the male rate. There is a feeling among labor market researchers that the most rapid gains in female participation have been realized, but this is not a firm prediction.

The high birth rate cohort of the early 1950s—the baby boom generation—were absorbed into the labor force during the 1970s and for a future spell the young entering group should not be quite as impressive. There is also immigration to be considered, and this force should not be expected to diminish, considering both the legal and illegal components.

On the whole, labor force growth has slowed down considerably. During the 1970s, the yearly growth rates varied between 2 and 3 percent. Since 1980, the rates have been much smaller. In 1983 it was as low as 1.2 percent. In other years, it has been as high as 1.8 or 1.9 percent, but it has not been in excess of 2.0 percent, as it was during much of the previous decade.

A full employment society should be able to provide jobs for all qualified people who genuinely seek work. In a normative sense, the ability to achieve full employment targets should be independent of labor force growth, but in practice, especially in the near term (up to 5 years), labor force growth is an important consideration to be taken into account. Having these demographic trends in mind, I personally always felt comfortable with the Humphrey-Hawkins targets for a sufficiently long period of adjustment.

High demand for the aggregate of goods and services produced—the GNP—and moderate demographic expansion obviously make for improvements in the unemployment rate. There are other specific aspects of labor market conditions that require careful examination for determining whether or not traditional values for full employment rates of unemployment can be reached. These aspects are:

1. Industrial transition.
2. Labor productivity changes.
3. Wage rates.

There is no doubt that we, in this country, and in other OECD nations are undergoing an industrial transformation. We are shifting from manufacturing and goods producing sectors to service sectors, and within these major sectors there is also a great deal of shifting activities from traditional to new processes or goods. Change always occurs in economic life, but we are probably experiencing a major change now. The manufacturing share of GNP had fallen from about one-quarter to little more than 20 percent over the past 10 years, and this trend may continue. The new technologies require new skills and training for their work force. There will be frictional unemployment for job shifts and for retraining. We have begun to adapt to this situation, but it undoubtedly means that the full employment goal is not immediate.

Many of the new technologies involved in this process of industrial transition have the potential for contributing markedly towards increasing labor productivity or reducing labor requirements for a given output level. At the present time, we are experiencing a gradual decline in unemployment and a modest recovery in productivity, the latter being a recovery from negative or near-zero growth rates in output per hour. The dramatic increases in productivity have occurred only in specific lines of activity and contribute to transitional unemployment, but an economy-wide impact cannot yet be detected. In the early stages of this technological change, we can see evidence of increasing labor requirements for the production of new facilities (the "hardware") and also for new, associated activities (the "software"). There is no tendency yet for massive displacement of workers, and I do not think that it will happen, but if this prognosis is incorrect, there is still one long term safety valve, namely to take some of the productivity gains in the form of a shortened work week.

The classical approach to unemployment, as to supply-demand imbalance in any market, is to let the price make the adjustment. The classical approach for dealing with unemployment is to look for markets to bid down wage rates. Wages have been responsive to labor market conditions. Compensation per hour was increasing by about 10 percent annually, for all sectors of the economy, and is now growing by less than 4 percent annually. With low inflation rates and moderate productivity gains, there is not likely to be much higher growth rates for hourly compensation. Wage moderation has been achieved, and given that wages are simultaneously important demand (purchasing power) factors and cost factors it does not appear to be worthwhile to look for additional wage moderation beyond what has already been achieved, and that is, indeed, substantial. Forecasts of moderate wage gains, and low inflation rates—both near present rates—together with an expanding economy point to further gradual declines in the unemployment rate.

In the natural course of events, given the present outlook for fiscal, montary, trade, and exchange rate policies unemployment should continue to decline. It is reasonable to expect that a rate of 6 percent and possibly even 5 percent can be reached over the next two or three years. These are favorable and certainly a reversal of the trends that prevailed in the recessionary period, 1980-83. The natural process stops short, however, of full employment. More vigorous policies of fiscal expansion, monetary ease, export promotion, and investment stimulus are needed. At the present time, budget restraint mandated by the Gramm-Rudman-Hollings legislation calls for significant spending reductions and tax increases by the federal government. Apart from the constitutionality of the act or the spending priorities implied, it is excessively severe. If left by itself as a sole policy initiative it would generate a recession and higher unemployment than we presently have. If offset and accommodated by easier monetary policy, it can be neutral or even beneficial, depending on the degree and speed of accomodation. If it is, indeed, unconstitutional, it probably contributes to a constructive approach towards deficit reduction at a compromise rate of deficit decline, perhaps to the level of the structural deficit by 1970, which is figured to be about $100 billion. This kind of budget restraint together with lower interest rates, by another 100 or 200 basis points, would lead to a sufficiently strong economy to bring the unemployment rate to 6 percent or better.

In order to go the additional distance, to the full employment level at 4 percent, more encouragement would have to be given to stimulating capital formation and to export competitiveness. The dollar ought to fall by another 20 percent or more in this kind of process; then we would have a chance to get back to full employment.

The present versions of tax reform legislation focus too much on horizontal equity and not enough on the macroeconomics of capital formation. If more attention were given to investment stimuli under the tax codes, then we might be able to achieve the added push that would bring us back to full employment. Full employment, in this brief presentation, has been addressed in terms of a national average rate, at about 4 percent, but that leaves many groups in our society hopelessly mired at high rates. Some rates now are above 20 percent. Teenage rates, black rates, some urban center rates are unbelievably high. A true full employment policy should not only take aim at the average rate, but it should work along structural lines to provide meaningful on-the-job training, information services, and various tax incentive programs to bring labor market gains to all groups in our society. It is safe to assume that the attainment of full employment, on average, will also benefit many groups where unemployment rates are now unusually high but the automatic benefits will be modest and special targeted policies will be needed in order to bring about full employment on a broad distributional scale.

Chairman **HAWKINS**. Thank you, Dr. Klein.

The final witness is Dr. Bertram Gross.

Dr. Gross, we welcome you.

STATEMENT OF DR. BERTRAM GROSS, FORMER EXECUTIVE SECRETARY, COUNCIL OF ECONOMIC ADVISERS, VISITING PROFESSOR AT UNIVERSITY OF CALIFORNIA, BERKELEY, AND ST. MARY'S COLLEGE

Dr. **GROSS**. Mr. Hawkins and members of the committee, it is a great honor to appear here before the committee, which I think has demonstrated by its work that it is the most forward-looking committee in the U.S. Congress.

I wish I had a better standard of comparison.

Chairman **HAWKINS**. Well, thank you for the compliment anyway.

Dr. **GROSS**. I wish, when I look back over the decades, I could be as objective as Leon Keyserling and look at figures, but looking at figures helps me, helps me escape the pain in my heart when I look back to the depths of the Depression in 1933, just 50 years ago in the spring of that year, I was about to graduate with a bachelor's degree from the University of Pennsylvania, and my whole class was wondering where are we going.

But the saddest memory at that time, when our family had lost its house foreclosed upon, and my father had lost his job—this is difficult—I remember my father asking me what does he have to live for. And he looked at the little closet where I knew there was a revolver with cartridges, what did he have to live for.

I sensed at that time, although I had learned nothing about economics from the economics department before Lawrence Klein got there many years later. I sensed at that time that my family was wrong in saying that my father had caused the Depression, it was not his fault.

I must have succeeded in convincing him that the fact that our house was foreclosed upon, and his job was lost, and we were desperate, depending upon family help, that it wasn't just his fault, there were other people. And there was something wrong with the system that needed reform.

Well, I got to Washington some years later, I became part of that group of young people dedicated to the public interest, who were trying to reform the system. We were trying, to use the words of a book edited by Seymour Harris from Harvard, and contributed to by Leon Keyserling, "of an effort, a rather explicit effort to make capitalism more responsible and to save it at the time when it was in total collapse throughout the world."

I learned then something very interesting, that if you were trying to save the capitalist system by making it more responsive to human needs, you would be called a Socialist. This was rather strange, but we were called Socialists because we thought that profitability under capitalism would be better assured if there were a staff for under market demand, which the New Deal aimed to achieve, and there were measures taken, either to prevent depression, or recession, or modify those recessions when they came along.

Well, 40 years ago I had just survived one of the most grueling and exciting experiences of my life, namely serving with Robert Wagner and Senator Barkley, as the staff member at the conference committee that wrote the compromise between the very fine bill that passed the Senate, and the strange contraption that the Truman administration was able to force out of the House at that time, in order to bring the measure to the conference committee.

Well, a compromise measure was passed, not as good as the original bill, or the Senate bill, but quite different from the bill that came out from Carter Manasco's Committee on Executive Expenditures. But even then I saw that if you took action to stabilize capitalism, you would be in danger of being vilified. And I don't want to go through all of the names that people called us, or called Leon Keyserling when he was in the forefront of the effort to achieve 60 million jobs, which was done by 1952, a target set by Roosevelt before the 1944 election, and damned as totally impossible.

Something has changed since then in the nature of the political approach. Today I see a strange congruence between the left, which is rather bereft, and the right, which is not always right, and not always wrong either, but the strange congruence is that the left and the right have sort of come together to say that you can't talk about full employment planning, full employment policies under capitalism.

They seem to have joined in convincing the model middle, who engage to go along with the conspiracy of silence concerning the violation of the clear mandate in the Hawkins-Humphrey Act of 1978. That violation which started under Carter, and became much more serious under the present President, has meant that again today people speak to their sons, I suppose, and their daughters and their wives, as my father spoke to me 53 years ago, when I was about to graduate from college in 1933.

I have made a calculation here of what the violation of the Hawkins-Humphrey goals has meant. I have not included the victimization of millions of men, women, and children in the urban, rural, and, yes, the agricultural areas of our country. I have stayed by the cold statistics of what that violation has meant in the enormous amount of unemployment deficits.

I have used two calculations on measuring the unemployment deficits. The table may be before you, one is the current estimate by the Congressional Budget Office that every 1-percent increase or decrease, plus or minus, take it either way, has an impact of $40 billion, $40 billion more if it goes up and $40 billion less if it goes down. The obvious reason being that when people are unemployed, the unemployed people don't pay taxes and when they are unemployed, they receive various forms of transfer payments which mean more expended.

That combination of lost revenue and increased outlays is currently estimated at 25—in my table before you, I have given a low estimate, also, of $25 billion, which was used some years ago. And I have made a little projection of—in the second column—of what unemployment would have been from 1979 through 1985, the 7 years of sustained violation of the mandate of the Hawkins-Humphrey Act.

I have compared the actual unemployment during those years, which rose to a peak, of course, for the year as a whole, of almost 10 percent in 1982; not much less in 1983. I have calculated the difference, meaning the additional unemployment that resulted, and multiplied that by both the current Congressional Budget estimate of $40 billion unemployment deficits, and the lowest I could find, which was $25, and I find if you use the low estimate, the deficts during that period add up to $543 billion, which is about 55 percent of the almost $1 trillion increase in the national debt during this period.

If you use the Cogressional Budget Office estimate, the deficits each year, the unemployment deficits add up to almost $870 billion, which is more than 85 percent—87 percent by my table, of the total deficits that increased the national debt to its level approaching $2 trillion already in 1985, and of course, at the moment we know that it is over $2 trillion.

I mention this because what the chairman has improperly referred to in his invitation to myself and the other witnesses, as the Gramm-Rudman Act, it should be called the Reagan-Regan act, because the hand may be the hand of Gramm and Rudman, but the voice is that of Reagan and Regan. It is their law to be followed, or amended, depending upon the good judgment of this and the other House.

The Reagan-Regan act is based upon the false idea that a chair or a stool can stand up if it has two legs; it assumes that the deficit is merely the result of spending, the outlays budgeted, and the revenues presumed to be collected, and that's all. And it totally overlooks the fundamental principle which was implicit in the Employment Act of 1946, and explicit in the Hawkins-Humphrey Act of 1978, that the level of employment determines the number of people who pay both payroll taxes and income taxes, and the amount of outlays through unemployment compensation, public assistance, and other transfer payments to people who are unemployed.

That's not the only shortcoming in the sort of phantasmagoric analysis behind the Reagan-Regan-Rudman act. So, I take my position in answer to the chairman's question that the nonsense should be amended out of the act, this is still a Congress with legislative powers. And if a mistake was made in 1985, that's all the more reason to correct that in 1986.

I indicate in my statement that what the short-range corrections should be, but I also go further and say that there are longer range measures that must be taken to carry out the spirit of the 1946 and 1978 statutes.

Perhaps as growing up in conservative Jewry, I was overimpressed by the Ten Commandments, and I have never forgotten any one of them, including the first, which says "Thou shall not serve mammon," but in any case, the No. 10 has impressed me so much that I pulled my thoughts together and I could not get down to less than 10 ideas, which I find implicit in the laws we are talking about, and in the Incoming Jobs Action Act as presented to this committee, and five other committees, by both Mr. Hawkins and Mr. Hayes.

I am just going to mention quickly these points, they by no coincidence—the very first one of them is very close to what Larry Klein mentioned a moment ago, it is a strange idea around, that you can't get more jobs without spending more initial money. This is ridiculous.

There are two ways of getting more jobs with less spending, I mean less initial spending, not getting it back, which you often do, if the jobs really are created, but the first, of course, is reducing real interest rates which also will reduce the interest you pay on the Federal debt and mean less spending and more jobs, because as Leon pointed out earlier, this has a major effect on the boom and bust housing industry, and all other industries that produce goods for which people must seek credit. And it also has a huge effect, of course, on our balance of trade, as it now generally recognized.

But on the length of the work year, it is really fundamental as we get more electronic slaves to do our jobs, it is necessary—and this has been pointed out often—it is necessary to continue, and perhaps, even accelerate the long-run decline in the length of the work year.

A quick calculation—two quick calculations might be interesting to this committee, the first is let us think what it would be like today, what unemployment would be like today, other things being equal, that's what every economist has to say, ceteris paribus—everything else being equal, suppose we kept the 50-hour week, suppose we listened to those who said the 40-hour week is socialism, we can't afford it.

Well, and I can submit the table to the committee, well, there would be 30 million people out of work.

Let me put it another way. Suppose the workweek had not declined at all from 1946, 40 years ago, to today, well now the workweek in manufacturing, which is not our gross field, has not declined, it still hovers around 40, well, a few decimal points above and below depending. But in retail trade and in the services, the workweek has fallen tremendously, and the average workweek, which may come as a surprise to those who focus only upon the work week in manufacturing, the average work week is now 35.

So, I ask you, you don't need a computer for this, you don't need a macroeconomic model, although I like to think that the macroeconomic models done at my alma mater would include this—what would it be like today, if the average workweek for the total economy were 40, instead of having it fall under 35?

Well, instead of 110 million people in civilian employment, there would be about 96 million, which would mean that 14 million more people, other things being equal, added to whatever you think the official unemployment is now; 14 million people.

For every decline, other things being equal—we won't have time to get into the question of the relationship between the hours of work and output per hour, productivity—it is a complicated one—for every decline of 1 hour, you spread the work around to about 3 million more people.

Suppose we say, all right—in my testimony I say full employment by the year 2000, because for me you only achieve full employment by only getting the average rate down, you must get down the unemployment rate for minorities in this country, and for youth in this country, to what it is for the general average today. And that means a massive change.

So, I am saying full employment by the year 2000, but just think if we relied only upon those two measures of reducing real interest rates, and slowly moving down from the average of 35 to 30, which would mean taking manufacturing, which has held steady, as a perfect example of what happens when the historic movement toward reducing hours with the introduction of labor-replaying machinery comes in, if we just bring that down, that 40 down to 35, just think what that would mean in smokestack America, and in the rural areas that are so dependent upon the health of the smokestack industries.

Well, that's the first point, and it is sort of an example why I should not try to explain the other points, because the other points are even more complicated. I will just list them briefly.

The second is an overall quality of life program from now to the year 2000. And that means not only specific priorities for the next 3 or 4 budgetary years, but prospectives answering the question what do we think America should be like by the year 2000, only 14 years away?

This, of course, means from a quality of life approach; this, of course, means using people who are now unemployed and underemployed in meeting our needs for repairing our infrastructure, reindustrializing, adjusting our agriculture and doing what needs to be done above all in education, but also in health, housing, and transportation.

My third point is sort of an answer to—I am not sure whether I am trying to answer Fritz Mondale, when he asked "Where is the beef?", or Gary Hart, when he tried to show, what I am saying that is implicit in this approach is the creative program or reindustrialization in goods production, in housing, transportation, recycling, agriculture, and even artificial intelligence. I don't think artificial intelligence will take the place of natural stupidity, which seems to have a good future.

Let me just ask one question here, why is it that those cities which are buying subway cars, buses, surface transport, such as trolley cars, have to go to Japan, Sweden, or Australia? Is it impossible to think that things like that could be made in the United States? Don't we have enough trained workers? Don't we have enough facilities? Don't we have enough capital?

I just can't go along with this idea of the neoliberals, that you have to get a few smart people together to sit on a mountain top and say, "There's losers, there's winners, we will put the money on the winners."

No, it takes creative imagination. And I think with that kind of imagination, we can get back into work on the industrial front. But that is not possible, unless we go to point four, which is building on the most recent innovations, in education, health, and child care.

I will not take your time by going through some of the details on this. I will move over, however, to the fifth point, which is inclusive public-private partnerships. And I guess I am looking a little bit too much backward to the so-called industrial policy which came out of one of your other committees of Congress, and has not come up on the House floor yet, which setup some small group of VIP's to sit on this mountain top and look around for losers and winners.

I am saying instead of that, if we want world class innovation, it won't trickle down from corporatist schemes of that type. It requires the unleaching creative energies by small business, also, and by workers and technicians, and even the unemployed.

Sixth, a rebirth of local initiatives in overall planning. Now, here we get to one of the really tough matters. When I look back, I don't even have to go back 40 years ago, when I look back 30 years ago, the idea of local initiative was what Herbert Hoover used to attack the New Deal. He said, "Well, the Federal Government can't do anything."

I think we have to stand that on its head today. We need local initiatives in—maybe I have been influenced by Tip O'Neill saying that all politics is local. We need local initiatives to build the constituency base for achieving full employment, genuine full employment by the end of this decade, or as in my statement, by the year 2000.

I refer here to a quality of life action ordinance which is now being discussed in many California communities, and I can put a copy of that in the record, too.

Seventh, raising the income of the poor through productive work. Again, going back a little more than 40 years ago, there was a time when President Roosevelt, Franklin—I don't go back to the other one—Franklin called one part of the country America's economic opportunity No. 1. Why? Why was the South called the economic opportunity No. 1?

Because it was so poor at that time, because the Roosevelt administration saw that lifting the incomes, yes, and the wages, too, upon which income is mainly based, lifting those incomes is America's opportunity as a whole, because it would provide a larger market needed for responsible growth in this country.

My testimony relates this, not only to the poor in America, but to the poor, the big poor in the so-called Third World Countries. Just think what markets there would be, not only for their own production, but for American goods and American services, if the income of the poor in Latin America, including Central America, and Asia and Africa were raised by 10 percent alone—what this would mean in terms of the growth of responsible capitalism.

My eighth point, of course, is responsible anti-inflation action. I refer to Japan and Sweden, where they have achieved high employment without using unemployment as a presumed weapon against inflation. And I pay my respects to the provisions of the Hawkins-Humphrey goal, rather controversial at that time, it sets a goal of 3-percent unemployment side-by-side with the goal—I'm sorry—3-percent inflation maximum, side-by-side with the maximum of 4 percent in unemployment.

Finally, I talk about quality of life budgeting. We desperately need a quality of life budget which is aimed not at following the Reagan-Regan-Rudman Act, but at really seriously meeting human needs, and also cutting the deficit through increased employment.

My final point deals with citizen activism. Because the level of education throughout the country and the level of involvement is critical to the success of any democracy, it is probably the most difficult problem to cope with at this moment, when the media have educated people, and great communicators have mass-educated people to look for slogans instead of principles.

I have been told that there are people today who say—and don't know which side of the aisle it is on, more than the other—I am more surprised to find it on the Democratic side, and I am delighted to find it—some people on the Republican side disagree—but there are people who say that full employment is out, it is old fashioned, just forget it.

In fact, I have in my hand an op ed article written by one of the members of your committee, Mr. Hayes, from Chicago, and I just want to ask the question he asks, and I am quoting from his op ed piece called "40 Years After the Employment Act," "How come so many well-meaning people see job training and Federal job creation, vital though they are, as a substitute for overall full employment planning?"

And then he says:

> Neither the Joint Economic Committee, nor the Congressional Budget Office, nor the OMB, nor the Comptroller General has told the country that reducing the official unemployment, even step by step to the Hawkins-Humphrey level of 4 percent, would cut the deficit more than the estimates appearing in this out-of-date and totally ridiculous Gramm-Rudman Act.

I don't know. I can't answer the question. I don't know why it is difficult to talk about full employment at a time like this. My friend, John Conyers, asked me that some months ago. Why is it difficult? I don't know. It is very difficult but I am convinced that the subject will come back, and that this committee, and the members of this committee who are able to see through the masquerades and the charades of today, I am hopeful that they will really take action, the kind of action needed to bring back the full employment goal, not only because it means complying with the law, but because it means complying with basic moral principles.

Thank you.

[The prepared statement of Dr. Bertram Gross follows:]

PREPARED STATEMENT OF DR. BERTRAM GROSS [1]

Attacking the idea that full employment planning is impossible under capitalism, Bertram Gross presented the House Committee with a 10-point program for full employment at good wages by the year 2000.

"On this issue," stated the former Truman aide and present California professor, "the Left is bereft, the Middle muddled and the Right not always right—or wrong. The Left and the Right together have long held that no one should ask for full employment under capitalism. The Middle has accepted welfare, job training and last resort public jobs (vital as they are) as substitutes for an over-all full employment policy and full employment movement. Left, Middle and Right seem joined in a conspiracy of silence concerning an economic crime: namely, violation of the Hawkins-Humphrey 1978 law. That law mandated the reduction of official unemployment to at least 4 percent. Lawbreaking over a seven-year period has victimized millions of men, women and children in urban, rural and agricultural America. It has contributed at least $800 million of the $1 trillion increase in national debt from 1979 through 1985.

"This law breaking has been justified by those who label the present unemployment rate 'natural.' Why natural? Because it naturally reduces real wages, naturally helps bust unions and naturally keeps women and minorities in their 'proper place.' It has been aided and abetted by the Reagan-Regan (improperly named Graham-Rudman) farce of ignoring the deficits produced by both unemployment and extravagant 'tax expenditures.' The Mammon worshipping economists who support this nonsense are simply bad theologians.

"One finds better economists among the real theologians. Thus, with Protestant ministers and Jewish rabbis, the Catholic bishops find that "Our high unemployment is morally unacceptable." They spell out the economic costs through "wasted talent, lost taxes, increased welfare costs, and rising crime rates." They then call for "A New American Experiment" based on "over-all planning" (Pope John Paul's words). They define such planning as "just and rational coordination" of public and private policies to protect the rights of the poor, the unemployed, the homeless and the displaced as well as business.

Professor Gross praised members of the Education and Labor Committee for their labors in trying to educate a reluctant Congress on the need to base practical economics on moral vision. The "Income and Jobs Action Act" (H. R. 1398), authored by various committee members, is an exciting first step. "In improved form," he stated, "this bill would provide part of the job description for the next President of the United States.

But he expressed doubts about "reaching full employment in the 1980s." "Four years may be needed," he said, "just to repair the damage inflicted in the last seven years. Too many corporate executives have become addicted to the heroin of tax give-aways, cost-plus contracts, and debt-financed speculation. The full cure implied by H. R. 1398 could take longer."

To prevent greater damage in the near future, he asserted, the nonsense should be amended out of the "Reagan-Regan-Rudman" Act. But the more fundamental alternative would be action on a legislative package in the spirit of H. R. 1398. He then offered 10 principles to be considered in hearings on that measure.

1. Getting more jobs with less spending by reducing both real interest rates and the length of the work year. This is the quickest way to put more people to work—and also cut spending.

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[1] Bertram Gross is Distinguished Professor Emeritus of Urban Affairs and Political Science, City University of New York; Visiting Professor, Peace and Conflict Studies, University of California, Berkeley, and Professor of Government and Economics, Saint Mary's College California. He was the Executive Secretary of President Truman's Council of Economic Advisers. His books include "Friendly Fascism," "The Legislative Struggle," "Action Under Planning," "The State of the Nation: Social Systems Accounting, Organizations and Their Managing," "Social Intelligence for America's Future," and "The Hard Money Crusade."

2. An over-all quality of life program from now to the year 2000. With businesslike leadership, backed up by sound fiscal and monetary policy, the unemployed can be put to work to meet America's huge unmet needs in education, health, housing, transportation, reindustrialization, agriculture, public works, research and development, etc. The interim Hawkins-Humphrey goal of 4 percent unemployment could then be supplemented with the goal of reducing minority and youth unemployment to 7 percent.

3. Creative reindustrialization in housing, transportation, recycling, agriculture and artificial intelligence. Well before the year 2000, a revitalized American industry could meet the needs not only of Americans but also of hundreds of millions of people in countries like China, Indonesia and Brazil for—

More efficient transportation (railroads, buses, trolley cars, subways, etc.) and communication systems,

Passenger cars that are safer and more efficient than anything now produced in Japan or elsewhere,

Prefabricated (and exportable) housing modules that include communication, weatherization, lighting, plumbing, heating, cooking, and washing equipment, etc.

Mining urban regions for the enormous amount of valuable materials that can be recovered through the integrated recycling of liquid, gaseous and solid wastes (as outlined years ago by Jane Jacobs in The Economy of Cities),

Agricultural systems geared to deliverying the kinds and quantities of food needed to abolish hunger and malnutrition in the world and the kinds and quantities of fibre needed for adequate clothing in all climates, and

The vastly improved software needed for supercomputers, "artificial intelligence" and all the above.

4. Building on the best recent innovations in education, health and child-care. With imaginative government leadership, today's pioneers in human services could help the entire world, as well as America, develop nation-wide—

Educational systems based on adding an R for Reasoning to the traditional Reading, 'Riting and "Rithmetic,

Health services oriented not only toward better disease treatment but also the promotion of well-being as the best form of preventing disease and disability, extending the life span, and caring for the elderly,

Child care systems dedicated to excellence through staffs composed by three generations of both men and women, and

Systems for the repair of old and new types of equipment.

5. Inclusive rather than, exclusive public-private partnerships. World class innovation will not trickle down from tripartite partnerships of big business with a few government and labor bureaucrats. It requires, rather, the unleashing of creative energies by small business, workers on the job, technicians, academics, middle level executives and organizations representing labor, the unemployed, the professions, minorities, women, and neighborhoods. Bottom-up innovation is a precondition for excellence at the top.

6. A rebirth of local initiatives in over-all planning. A model "Quality of Life Action Ordinace" sponsored by Mayor Gus Newport of Berkeley, California, would bring old-time physical planning and zoning together with the upgrading of low income neighborhoods and economic development. In the perspective of The City By The Year 2000, the City Manager will present the City Council with an integrated short-term program, including financial mobilization. Advice will be provided by an inclusive citizens' group representing "the income and wealth levels of the population and its racial and cultural diversity, including an equal number of men and women." More bottom-up initiatives like this are needed throughout America's cities, counties and states.

7. Raising the incomes of the poor through productive work. The best cure for poverty is full employment at decent wages. while this would deny employers the short-term advantages of cheap labor and weaker unions, it would also provide the mass purchasing power needed for capitalist profitability without government subsidy. The same is true in much larger measure for the hundreds of millions of "Third World" poor. If their incomes were raised through responsible growth policies, they would become enormously larger markets for American goods and services. And there would be less incentive for American plants to move there. To prevent plant closings here, we should reverse domestic austerity and stop the I.M.F. and World Bank from using our tax dollars to force austerity policies on Third World countries.

8. Responsible anti-inflation action. Japan and Sweden have reached high employment without using unemployment as a presumed weapon against inflation. With a full battery of standby policies of price fixing, interest, and salaries as well as

wages, we can get inflation down to three percent (another Hawkins-Humphrey goal) while moving toward sustainable full employment.

9. Quality of life budgeting. America needs a Quality of Life Budget aimed at reaching the Hawkins-Humphrey goals in a number of years. Reducing official unemployment by only one percent in any one year will cut the deficit by $40, which is more than the $37 billion a year expected under the Reagan-Regan-Rudman Act. Productive investment should be stimulated by attaching investment conditions to at least $40 billion in tax expenditures and by promoting more constructive use of the enormous amount of deferred wages in employee pension funds.

10. Citizen activism. Broad local and national coalitions are needed to help all private and public sectors rise above single issues. This means seeing full employment without inflation as a unifying ideal in action to improve the quality of American life.

Unfortunately, the Radical Right and the Bereft Left seem to have convicned the Muddled Middle that we should give up on genuine full employment without inflation. Fortunately, some members of this committee know that this could mean giving up on the cause of human freedom—and the future of democratic capitalism. I hope other members of this committee will join with them in picking up the fallen flag. . . .

UNEMPLOYMENT DEFICITS 1979–1985

[Dollars in billions]

	Percent unemployment			Unemployment deficits		Total deficits	National debt
	Actual	H–H [1]	Dif. [2]	High [3]	Low [4]		
1978	6.0						
1979	5.8	5.8	0.0				$833.8
1980	7.1	5.5	1.6	$64	$[40]	$72.7	914.3
1981	7.6	5.0	2.6	104	[65]	73.9	1,003.9
1982	9.7	4.5	5.2	208	[130]	120.0	1,147.0
1983	9.6	4.0	5.6	224	[140]	208.0	1,381.9
1984	7.5	4.0	3.5	140	[88]	85.6	1,576.7
1985	7.2	4.0	3.2	128	[80]	221.6	1,827.5
1986				868	[543]	781.8	

Increase in national debt, 1979–1985: $993.7 billion.
Unemployment deficits as percent of above:
High ($868 billion): 87 percent.
Low ($543 billion): 55 percent.

[1] Unemployment as reduced over fiver year period to 4 percent as mandated in Hawkine-Humphrey Full Employment and Balanced Growth Act of 1978.

[2] Difference between actual unemployment rate and assumed H–H levels.

[3] Unemployment deficit at $40 billion per 1 percent unemployment (current estimate of Congressional Budget Office).

[4] Lower unemployment deficit, estimated at $25 billion per 1 percent unemployment.

Preliminary estimates March 17, 1986.

Chairman **HAWKINS**. Well, thank you.

The Chair would like to thank all three of the witnesses. I know that much time has gone in the preparation of your testimony before this Committee. And I think that we have benefited tremendously from your contribution.

Because the time is limited, and the bells will soon begin ringing I am sure, we will try to pass the questioning around just as much as possible.

But first, Dr. Klein, let me ask you about statements that you made on page 6 of your prepared statement. At the bottom of the last paragraph, on page 6, you said, "At the present time, budget restraints mandated by the Gramm-Rudman-Hollings legislation call for significant spending reductions and tax increases by the Federal Government."

The phrase "tax increases" was one that seemed to be somewhat unclear as to whether or not you are reading into the Gramm-

Rudman legislation the necessity to increase taxes. Is that the correct assumption?

Dr. KLEIN. Well, my point is that what Gramm-Rudman-Hollings asks for is to get the deficit down. In my opinion, the sensible and balanced way of getting it down, is to combine spending cuts and tax increases, and not to do it all by one or the other.

Now, of course, the legislation goes on to say what would be done, if it can't be met on a voluntary and agreed upon basis, then it is spending cuts mandated in a certain pattern.

But I think it is perfectly consistent with that legislation to use some tax increase as well as spending cut, in order to meet targets.

Chairman HAWKINS. In other words, are you saying it would be very difficult to do it by spending reductions alone?

Dr. KLEIN. I think it would distort the economy, it would distort many of our goals, many good programs, and it is never a good idea to be completely one-sided in economics, you want a balanced economy, and a balanced program would call for a combination of those two approaches.

Chairman HAWKINS. You were going to say that if left by itself, as a sole policy initiative, it would generate a recession?

Dr. KLEIN. Yes.

Chairman HAWKINS. What other policy, or policies are you suggesting would be needed to reenforce or to supplement Gramm-Rudman?

Dr. KLEIN. Well, if you look at that piece of legislation and say, as my colleagues have said before, other things equal, you just implement it. Then, indeed, it has all of the power to generate a recession, and every calculation that I have made or seen on trying to implement it in a statistical system does just that.

Now, of course the natural offset that one would look for is the monetary policy, and in a way that answers the plea of many economists, to change the mix that we have been having the last few years—between fiscal and monetary policy—toward tighter fiscal, easier monetary. And I think, also, the international policy of bringing down the dollar and improving exports has some other benefits that go along with the easier monetary policy, in order to overcome the recessionary aspects of the Gramm-Rudman legislation taken by itself.

Chairman HAWKINS. Of course the act itself does not call for the other policies.

Dr. KLEIN. No, it does not.

Chairman HAWKINS. So, in effect what you are saying is that it would have to be rescued by other policies, over which Gramm-Rudman has no control, and is completely separated from any other policies.

Dr. KLEIN. Yes. You know, I think Dr. Keyserling said it is not an end in itself just to get the deficit down, the ends that we are interested in is having good economy, and having a high level of employment, low level unemployment. Those are sensible ends.

This piece of legislation is a means, but not by itself. If it is treated all by itself, then there is trouble ahead.

Chairman HAWKINS. Thank you.

The Chair will yield to Mr. Owens.

Mr. OWENS. Mr. Chairman, I have more or less been overwhelmed by the testimony and the many ideas that were put forth, but I would like to ask one question after my comments.

Dr. Keyserling said it is a very unusual statement or concept, I think that we have the most moral use of resources during the war. War makes the most moral use of resources. Am I correct, am I quoting you correctly?

At that time we made the most moral use of resources. There was a clear sense of purpose and we mobilized to deal with a clear problem. Would you say, also, that the armaments race, through a back-door process, has sort of demonstrated the capacity that our Government has for mobilizing resources for a national effort?

Or to put it differently, for any purpose other than war, would our Government really amass such huge amounts of money? Would we not be saying that it is really impossible for any government to afford the kind of national budget that we presently have, with our defense budget—not only our Government, but I think some other key governments in the world, have massed tremendous resources and are spending tremendous amounts of money on armaments, and if they were called upon to do it for any other purpose, they probably would have declared that it was impossible. If you called upon them to feed the whole world, or to provide decent health care and education, et cetera, for the whole population—even small governments, of course, are spending tremendous amounts on armaments.

So the capacity of governments to mobilize resources and to carry large budgets has been demonstrated by the arms race.

Could we say that full employment could be the peacetime equivalent of war? I mean, what we really need is a policy which defines the highest purpose, or one of the highest purposes and highest priorities of government, as full employment, being full employment, and if we do that, we could somehow generate the capacity to get full employment.

Finally, and the real question is, is one of the problems in getting the discussion of full employment even on the agenda of the major decisionmakers, as you point out, the middle is muddled and the Left is confused and the Right is obsessed with their own greed. There seems to be no voice which calls for something as reasonable as the proposition that is made by the article by Charlie Hayes which said we can get the deficit down, if we had full employment. Nobody will even consider that as a possibility.

Is the problem that we get lost—that the concept of full employment as we have enunciated it for 40 years now and the present communication atmosphere is not adequate, that we need some new way to communicate it, and maybe we should turn it on its head, instead of talk about full employment as a sort of statistical abstraction, you know, percentages, that we should talk about the right of an individual to have a job, a guaranteed right to a job? And take it from that individual's specific perspective, move in that direction and it would generate a new kind of debate, and maybe a new kind of momentum in the country, if you guarantee through a law, through a constitutional amendment?

Somehow talk about the right to a job, everybody should have a guaranteed right for a job, and start the debate from that direction, would you get a different kind of momentum?

I remember as we were approaching 10-percent unemployment, Ronald Reagan making the statement in one of his speeches that if 9 out of 10 people have a job, what is wrong with that? It makes sense to throw it out to the masses—9 out of 10, the 1 who doesn't have it out of 10, is just an unlucky one.

Well, I happen to represent constituents who have been unlucky over the last 40 years, and the unemployment is concentrated among the poor and among the minorities, and the statistics that look so good, even a 4-percent unemployment may look good in the abstract, when you drop that burden in one community, or on one set of people, and they are carrying the burden of that percentage, it is a different ballgame. And all kinds of problems are resulting from that.

We are destroying the black family. There is a lot of talk about the destruction of the black family. Nobody wants to talk about the fact that unemployment is a major factor destroying the black family, because that unemployment is so intensely concentrated in black communities. And there you have 20 and 30 percent adult unemployment, while everybody else has 7 percent.

Those percentages are just too vulnerable and too easy to play with, and too hard to communicate.

I just wondered if we should approach it from a different direction, a more concrete direction? If you wave the flag of guaranteed jobs for everybody who wants to work, or a job opportunity for everybody who wants to work, would that not be a flag that we could march under and clarify the issue of unemployment? That's my simple question.

Chairman HAWKINS. To whom were you asking?

Mr. OWENS. All three just comment.

Chairman HAWKINS. Could you confine it to one?

Dr. KEYSERLING. Let me try this. I have been so misguided by my experience that I do not believe that corrections—and I am for all of your corrections—I don't believe the corrections come by glorious generalizations about what we should strive for many, many years from now.

All corrections come from looking factually, despite what my friend, Bert says about the difficulties of looking at facts—everything important is a fact. The 40-percent unemployment among young people is a fact. If you don't know that fact, you don't know it exists.

Well, anyhow, I think progress comes from identifying the specific things that are being done wrong, in the order of their importance, and what are you going to do now to correct them.

Now, I think to get an improvement in all of the situations that you talk about you have to remember the quotation from Gerhart Fauste, "My worthy friend, grey are all theories and green are all life's golden trees." But then Justice Brandeis says, "The laws should speak from the facts."

Now, we ought to look at tax policy and money policy and spending policy, and housing policy, and the philosophy that enters into the President's Economic Report, and say what is wrong about them, and how am I, insofar as I have any role in the Congress, or as an economist, or a citizen, what do I suggest specifically now to start changing it?

Now, I would start changing this attitude toward 10 percent unemployment being OK, by going out and telling people what 10-percent unemployment is doing to the country, telling the 90 percent who are unemployed how much worse they are, and how much more threatened they are by a 10-percent unemployment which is concentrated 40 percent among some people.

I think that Members of Congress have got to start changing specific policies, based upon studies on how they need to be changed.

Chairman **Hawkins**. Dr. Gross.

Dr. **Gross**. I think one of the facts that we have to look at is that many people have lost their moral bearings and that of course follows from the principle that greed is enough, and the idea that if everybody strives to take care of himself, or herself, that somehow there will be some invisible hand that will take care of everyone else.

Actually, I don't want to get into this, but maybe I will write the chairman a letter on this—Adam Smith didn't say that, he was misquoted, when he talked about the invisible hand, he was only talking about people who were producing for their domestic market, and this was part of his attack on mercantilism.

One of the facts that I look at is the decline of fundamental moral principles, the decline of the idea that you should care for your neighbor, as well as yourself. I think that one of the best treatises on economics to have been written in the last decade came from the Catholic Bishops whom I quote in my statement, they said "Economic rights should be recognized, not only the rights of corporations and propertyowners, but the rights of everyone else, all rights". And they talk about recognizing these fundamental rights——

Mr. **Owens**. And every person to have a job, and every family to have an income which is at a level——

Dr. **Gross**. For those people who are unable to work, or cannot find a job, an adequate income. Of course, that has been partially recognized by the Congress through laws that provided inadequate income under demoralizing conditions for those who are unable to work, or unable to find a job.

But this tends over into the end, and I know that my good friend, Leon is one of those people, also, who found economic guidance in the Economic Bill of Rights that President Roosevelt sent to Congress in 1944. That, by the way, was good politics. That was the opening gun in the election of the Roosevelt and Truman ticket, to what was the first term, in a sense, for Harry Truman, and the fourth term, because he talked about economic rights and backed it up with a kind of factual analysis that Leon Keyserling was talking about.

I don't see any contradiction at all between fundamental morality and good economics. And I say in my statement that those economists who support the Gramm-Rudman Act, or the Reagan-Regan act, and similar measures are just theologians, but they are bad theologians. I think among the theologians who wrote—among the 5 bishops who prepared the report supported by the 250 bishops in the National Catholic Conference, which has won support from practically all of the other religions, think they have proved themselves to be much better economists than the official economists, because how can you separate a science of value from what is valuable?

And to be valued in human life?

So, I am delighted to hear Congressman Owens talk in those terms. I hope he will find supporters on the Republican side, also, who will join with him in taking this issue to the people.

Mr. OWENS. Thank you. I will be happy to find some supporters on the Democratic side first.

Thank you very much.

Chairman HAWKINS. Mr. Penny.

Mr. PENNY. No questions, Mr. Chairman.

Chairman HAWKINS. Well, the Chair would like to, since the bells are ringing and we have a vote pending, use this opportunity to again thank the witnesses for their contribution this morning. We regret that we must terminate, we would not want to keep the witnesses sitting by. The Chair is personally thankful for all three of the witnesses, and some of you who have come some distance, I think probably Dr. Klein came down from Pennsylvania, and I know that Dr. Gross came all the way from the west coast. Leon, you came just a few blocks, but we still thank you as well.

That concludes the hearing.

[Whereupon, at 12:07 p.m., the committee was adjourned.]

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